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FUTURE OF HONGKONG PRODUCTS

As the result of its great business transformation, Hongkong is now recognised as an industrial centre to be reckoned with in world markets. This phrase in the speech of the Governor of Hongkong, Sir Alexander Grantham, when for the ninth time he opened the annual Exhibition of Hongkong Products, marks a milestone in the almost fantastic progress of the industrialisation of the Colony during his record, and historic, term of office as Governor. It would have appeared an exercise in fantasy had it been uttered as a mere prediction at the beginning of this decade. Now it is a fact. Hongkong and its exports are being talked about—and what is much better—are being seen in shops and homes all over the world today. Rivals are continually talking about us, trade unionists are delivering themselves about us, often in ill-informed and unjust tirades, and newspapers comment or carry letters about us. Not all this publicity has been welcome. But even the most unwelcome of it seems in the end to have turned to the advantage of the Colony's industry, for such is sometimes the virtue even of hostile as well as of paid advertising. Hongkong, which has made its mark in so many other ways, from the succour of refugees by the million to the meeting-place and moulding centre of the peoples and cultures of East and West, has made its activities felt everywhere, in the market-place.

Some of a sceptical turn of mind, failing to find fuel in the manifest growth and success of industry, turn to the entrepot trade for the nourishment of

their particular outlook on life. There, at least, they pretend to find the evidence of decay. But they dare not cite figures—unless it be purely the heavy fall in the exports to China. No others support them, whether the sceptics are amongst us or, as is mostly the case, they look at Hongkong from a distance and simply cannot understand how we have managed to survive the storms of our era, and still less how Hongkong can possibly withstand the stress of the future.

They see a vast industrialising mainland towering above us, and the massive return of Japan to the markets of Southeast Asia. Yet both in fact have been bringing us tribute of unparalleled volume. Both have made, and may well continue to make, ever more use of the exceptional facilities of this port, which is a huge warehouse of products from everywhere no less than a growing industrial centre. Communist China, once isolated and aloof with economic relations limited only to the Soviet Union and its satellites, has become once more a world trader. For a decade to come her buying may remain highly selective until her industrial plans have attained fruition. But perhaps even before then—and certainly afterwards—she will seek in the teeming markets of the wider world new products that bespeak the infinite variety and fertility of invention which are the hallmark of Western industrial genius.

The industrial future of this Colony is now assured. There have been many fluctuations. It has

had a hard and continual battle through adolescence to the stage at which it has arrived. But the dramatic conquest of past difficulties gives assurance of the overcoming of all future obstacles. Indeed it is not so much of the future of Industrial Hongkong as of the future of Entrepot Hongkong that doubts now arise. They should be put aside, as the facts and figures of the past two years command. The export of our own products grows from year to year. Last year at the end of October these exports totalled \$598½ million; for the same period this year the total is about \$50 million in excess of this figure. Of course every dollar earned in this way represents in wages and employment and in other material things far more value to us than every dollar of total entrepot trade. Even so, the total trade of the port for the ten months was ten times as much—\$6,438 million. So it is a mere ignoring of fact and figure which permits of lamentations on the score of the entrepot trade. In the ten months that ended on October 31 the port handled \$840.6 million of Chinese imports and \$696½ million of imports from Japan. A great deal of our imports consists of the food supplies for our ever-rising population, but a very significant margin is left for pure trading and transit purposes. So there is no need to shed tears for the entrepot trade while acclaiming the rise of industry. They are in truth the twin pillars—each now as staunch as the other—which support the edifice of the Colony's remarkable prosperity. And it may well be that as the years pass both aspects of the Colony's trade will continue to expand more or less in friendly parallel.

But the major theme of the moment is, of course, the opening of the 14th Exhibition of our own products. The reference to the entrepot trade is merely meant to emphasise how unreservedly we may hail the great progress made on all sides in local industry. The stress in the speeches of the Governor and of the Chairman of the Chinese Manufacturers' Union was laid on the need to observe the highest moral principles, to uphold the reputation already gained by the great majority of manufacturers and distributors and besmirched only by the few. It was laid also on the encouragement of entry into the realm of higher products, already illustrated by the beginning now made in the manufacture of cameras. This is not limited to the mere assembly of the parts imported from abroad. Nearly all the work is being done here in the pioneer factories. The camera is almost universal nowadays. There are many men

still living who can recall that to have a photograph taken was the rare experience of a lifetime. Now one can hardly get away from the "fiends" with the camera, whose art has attained enormous dimensions both as a profession and as a hobby. In this case the camera and the manufacture thereof here are of symbolic significance as marking anew the entry of local industry into the field of precision work.

There was much wise and seasoned advice in Sir Alexander Grantham's speech, and while reputable manufacturers and distributors must have nodded their heads quite often in approval, they noted also, and with still greater satisfaction, his statement that "Government is very conscious of the land needs of industry, and active and continuous exploration is being made to find other areas suitable for industrial development." There has been a great widening of horizon within the narrow limits of this small Colony. Islands and sites formerly mere names on the unconsidered map have come into our ken and are being viewed with close and expectant gaze. Everywhere the mood is one of expansion and the fullest possible exploitation of all our resources. The plan of New Kun Tong—an industrial town to be equipped with housing as well as factories and all modern amenities—has already been drawn.

There will be other satellite towns in due course, for few doubt that Hongkong has a future more resplendent by far than its past because of its incomparable situation and its sound and deep roots in the whole finance, economy, trade and industry of this part of the world. The world will need Hongkong's special status and its special functions for a long time to come. It is in fact more than anything else an International Service Station. As we consider the potential turn in high-level diplomacy and perhaps the resumption of normal trade and diplomatic relations in a future that seems much nearer than it did even at this time last year, it can readily be seen how the functions of the port will expand. The prosperity local industry has gained it deserved to gain, and local financial circles will no doubt lend a sympathetic ear to Mr. Haking Wong's appeal for financial backing. Hongkong has been fortunate in that it has managed to industrialise without the fierce pains and penalties, and the hard sacrifices, required elsewhere. There is every reason to hope it will continue in this way, helping to alleviate unemployment and providing ever-increasing opportunities for the youth of the Colony, to whose education so very much attention is being paid.

THE ECONOMIC SITUATION IN THE FAR EAST

United Nations ECAFE Report for the six months period of October 1955 to March 1956

PART I

The 1955/56 production of cereals in the ECAFE region appears to have reached record levels. Among other crops, production increases were significant for rubber, raw cotton, raw jute and tea, moderate for sugar and copra.

Industrial production also rose in 1955 and early 1956. As compared with 1954, the 1955 rates of increase appear to have slowed down in China and remained more or less constant in Japan, India, Pakistan and the Philippines.

The greater expansion of exports than imports, accounted for particularly by higher production and export of rubber, and of manufactured goods—especially capital goods—from Japan, helped reduce the trade deficit of most countries of the region in 1955. In the first quarter of 1956, however, the trade deficit for the region as a whole (excluding Afghanistan, mainland China, south Korea and Nepal) widened again, both as compared with the preceding quarter and as compared with the corresponding (first) quarter of 1955. A rise in imports and a fall in exports were both responsible. Japan and India combined accounted for over 90 per cent of the net amount of the trade deficit for the first quarter of 1956.

The gold and foreign assets position of nine countries combined improved in 1955 over 1954. Japan's position improved particularly. Burma and the Philippines showed some deterioration of the position owing to lower exports of rice and copra respectively.

The diverse price trends in 1955 continued for the most part in 1956. The 1955 price level was generally higher than 1954 in Cambodia, China, Taiwan, Indonesia, south Korea, Thailand and south Viet-Nam. In most cases this was due to military and other non-developmental government expenditures financed by heavy budget deficits; in Thailand, however, improved export demand and some tightening of consumer goods imports in the first half of 1955 were mainly responsible. The price level remained stable in Ceylon, mainland China, Japan and the Philippines owing to deflationary policy in Ceylon, Japan and the Philippines, and rationing of essential consumer goods, made necessary by the high rate of capital formation, in mainland China. Burma, India, Malaya and Pakistan experienced a downward price trend in 1955, which however has since early 1956 been arrested or reversed.

AGRICULTURAL PRODUCTION

Cereals

Owing to relatively more favourable weather conditions and the efforts of governments to increase food production, the total 1955/56 production of cereals in the Far East (excluding mainland China) showed an increase of 2 per cent over the 1954/55 production and was also probably higher than the peak production of 1953/54. Rice production exceeded the 1954/55 output by over 6 per cent and closely approached the record production of 1953/54. In mainland China, the total production of (unhusked) food-grains (including rootcrops) in 1955 was officially reported at 184 million tons, an increase of 11 per cent over the 1953 production. The 1955 outturn of paddy in mainland China was reported to have increased by 5 million tons over the previous year's production.

Although the region's production of rice, the main staple food of the people, showed an increase, the situation in different countries varied considerably. Thus, while mainland China and Japan harvested bumper crops of rice in 1955/56, in Indonesia and Pakistan the outturn was lower than in the previous year. Moreover, in Indonesia, the adverse effect of a shorter rice crop was aggravated by a sharp decline in maize production. In India, the increase of about 1 million tons in rice production was more than offset by a decline of slightly less than 3 million tons in the production of millets, sorghum and maize.

The shortfalls in cereals production in India, Indonesia and Pakistan and the consequent sharp increases in domestic prices in these countries made it necessary for the governments concerned to import sizeable quantities for meeting current consumption needs, and focussed their attention on the need for building up reserve stocks. A part of the import needs for current consumption or building up reserve stocks in the two latter countries was expected to be covered through sales on special terms of surplus commodities available in the United States and, consequently, the strain on the limited foreign exchange resources of cereal deficit countries was likely to be kept down.

In the surplus countries of the region, the rice supplies available for export in 1956 were expected to come up to the level of previous year. Early in 1956, the export price, on government account, of the basic export quality of Burmese rice was reduced by about 14 per cent. Owing to reduction of export price, increase in import demand from Indonesia and India and maintenance of import demand from Japan (in spite of the record price crop of 1955/56), the outlook for rice exports from the countries of the region appears favourable.

The position in the individual countries is discussed below.

Cereal importing countries: In Ceylon, the rice crop harvested in the spring of 1956 suffered some damage due to drought in the dry zone necessitating institution of relief measures. However, in the wet zone, which accounts for the bulk of the paddy area, crop prospects were satisfactory and domestic purchases of paddy at the guaranteed minimum price were expected to be appreciable. By agreement with Burma, the volume of rice imports from that country would be restricted to 100,000 tons in 1956 and the price would be £36 per long ton against £42 per long ton in 1955. This would probably make it possible for Ceylon to increase rice imports from mainland China. With effect from 12 May, the price of rationed rice has been reduced to 40 cents a measure, a reduction of 10 cents over the previous price. Total rice imports in 1955 amounted to 385,000 tons of which 122,000 tons were from mainland China, 188,000 tons from Burma and 62,000 tons from Pakistan and India. In the first quarter of 1956, total rice imports at 86,000 tons were 18 per cent more than in the corresponding period of 1955.

In India, the rice crop harvested towards the close of 1955 exceeded that of the previous year by about 1 million tons. However, the output of millets, maize and sorghum was down by slightly less than 3 million tons and prices of cereals started firming up in the latter half of

1955. This tendency continued in the early months of 1956 and on 24 March 1956 the Economic Advisor's index of wholesale prices of cereals stood at 449 as against 311 in May 1955 and 426 in April 1954. The increase in prices was attributable partly to a decline in cereals output, partly to speculation, and partly to increase in money supply. Sales of cereals from government stocks were started in the latter part of 1955 and arrangements were also initiated for securing imports of cereals particularly with a view to building up a reserve stock of 2 million long tons. Early in 1956, a long term agreement was signed with Burma, providing, inter alia, for imports of 2 million long tons of rice over a period of five years. Owing probably to the sharp increase in the price of cereals that occurred in the latter half of 1955 and in early 1956, public attention seems to have been focussed on the need for further stepping up the efforts to increase the production of foodgrains. While the precise targets to be set for increased production of foodgrains were being discussed, the Indian Planning Commission was reported to be favouring an unusually large increase of 40 per cent over the period covered by the second plan. Imports of foodgrains in the first quarter of 1956 amounted to 80,000 tons as against 400,000 tons in the corresponding period of 1955.

In Indonesia, the 1955 rice output was 5 per cent lower than the 1954 production and the corresponding shortfall in maize production was about 33 per cent. The rainy season was prolonged and was characterised by frequent inundations. As a result crops suffered direct damage and the supplies available for distribution by the Food Foundation also tended to be low partly because of a shortfall in domestic procurement, and partly because milling of paddy had to be delayed owing to the relatively higher moisture content of paddy reaching the mills. Domestic purchases of paddy in 1955 by the Food Foundation at 593,000 tons were 47 per cent of the planned purchases and were over 28 per cent less than the actual purchases in 1954. Rice prices started rising from June 1955 onwards and in February 1956, the retail rice price in Djakarta was over 71 per cent higher than a year earlier. Towards the end of 1955 the government arranged import of about 500,000 tons of rice, of which the major part was expected to be received in 1956. An additional 250,000 tons of rice were expected to become available from the surplus stocks of the United States.

Japan harvested a record rice crop in 1955, which exceeded the 1954 production by over 30 per cent. The wheat and barley crops of 1955, however, showed a small shortfall (about 215,000 tons) compared to the 1954 production. With the coming into the markets of a bumper rice crop in the latter part of 1955, black market prices tended to decline, in several producing areas to levels lower than those of rationed rice. Consequently, offtake of rationed rice declined and stocks began to accumulate with the dealers. This significant improvement in the supply situation focussed the attention of the government on the desirability of modifying the system of food controls, particularly because of its heavy financial burden. As a first step, free sales of imported rice were started with effect from 1 April 1956. Government purchases of rice out of the 1955 domestic crop amounted to 31.520 million koku or 4.73 million tons up to 10 March 1956—about 40 per cent of the total production. Of the total rice imports of about 1,246,000 tons in 1955, 72 per cent were from the countries of the region and 19 per cent from the United States. In the first quarter of 1956, total imports amounted to 245,000 tons and of these 74 per cent were from the countries of the region.

In the Federation of Malaya, the 1955 rice production did not differ materially from that of 1954. Rice imports

into the Federation and Singapore were well over 70 per cent higher than the 1954 imports. In the first quarter of 1956 imports were higher than in the corresponding period of 1955. Prices in March 1956 were somewhat lower than a year back and reflected the improved supply situation. In Hongkong, total rice imports in 1955 at 263,000 tons were nearly 146 per cent higher than in 1954 and in the first quarter of 1956 imports at 78,000 tons were 14 per cent higher than a year back.

In the Philippines, the 1955/56 production of both paddy and maize was larger than in the previous year. While domestic production of paddy was considered sufficient to meet the consumption needs of the people, steps were being taken to build up a reserve stock of rice through imports. A barter agreement was reported to have been concluded with Portugal providing for exchange of a small quantity of sugar with rice and similar arrangements were being considered in respect of some other countries. With a view to encouraging increased production, the National Rice and Corn Corporation (NARIC) was reported to have increased the purchase price of paddy.

Pakistan, which exported a sizeable quantity of rice in 1955, needed considerable imports in 1956 to meet the domestic consumption needs of its eastern wing. Owing to the damage caused by floods and insects, the 1955/56 rice crop of Eastern Pakistan fell short of requirements and prices tended to rise. Thus, in Dacca rice price on 31 March at Rs 26/- per maund (82 2/7 lbs) was more than twice the price a year ago. Rice exports from West Pakistan were banned, as the government intended to purchase in that part 150,000 long tons for supply to East Pakistan. The government of the United States were reported to have agreed to supply 165,000 tons of rice to Pakistan for meeting the shortage in its eastern wing. Besides, they had also agreed to supply 125,000 tons of wheat for relief purposes.

The government intended to purchase in West Pakistan 615,000 long tons of wheat and to import about 300,000 tons in order to meet the requirements of rationed population and to build up a reserve stock. The government purchase price of the 1956 wheat crop was fixed at Rs 10 per maund, an increase of about 14 per cent on the previous price.

Rice exporting countries: In Burma, the rice supplies available for export in 1956 are estimated at around 2 million tons. Towards the close of 1955, nearly 70 per cent of these supplies were reported to have been covered by contracts. In the early months of 1956, Indonesia and India came forward as important buyers, the latter having agreed to buy 2 million tons over a period of five years. During 1956, Indian purchases were expected to come up to 300,000 long tons. The actual exports between January-April 1956 at 674,490 tons were 13 per cent higher than the corresponding exports for 1955.

In Thailand, the 1955/56 rice crop was a good one but in the first few months of 1956 limited supplies of paddy were available in Bangkok owing probably to hoarding by middlemen and transport bottlenecks. Total rice exports in the first five months of 1956 were estimated at around 500,000 tons as against 604,000 tons in the corresponding period of 1955. While early in the year, Government had fixed the premium payable for rice export at a flat rate of Baht 935 per ton, from 9 February 1956 it was reduced to Baht 600 per ton for white rice (25% to 50% broken) and glutinous rice (25% or more broken).

South Viet-Nam was reported to have harvested better rice crops in 1955 than in 1954. Rice prices, which had risen sharply in south Viet-Nam until October 1955, showed some decline in the following months but were nevertheless very high. Thus, the March 1956 price of No. 1 white rice

(25 per cent broken) at Saigon, though 28 per cent lower than the October 1955 price, was still 52 per cent higher than the March 1955 price. Prospects of resumption of rice exports from both countries appeared uncertain.

In China, the 1955 production of foodgrains on the mainland reportedly exceeded that of the previous year by 9 per cent and total rice production was up by 5 million tons. The increase in production was attributed partly to satisfactory weather conditions and partly to measures to improve output including improved cultural practices, irrigation facilities and cooperativisation of agriculture. Thus, by the end of March 1956, there were 1.09 million agricultural producers' cooperatives (APC), covering 90 per cent of the peasants. In May 1956, as many as 260,000 APC were reported to be fully socialist cooperatives pooling land, cattle, equipment and labour. These latter societies covered 56 per cent of the peasant households on the mainland. Efforts to increase food production were being stepped up and the 1957 target for food production was increased from 193 to 199 million tons of food grains (unhusked). The total rice imports from mainland China by the deficit countries of the region amounted to 292,000 tons in 1955 as against 293,000 tons in 1954.

In Taiwan, the 1955 rice crop harvested in the autumn of 1955 was better than the corresponding previous crop and the prospects for the spring crop of 1956 were also reported to be good. The output of sweet potatoes at 2.29 million tons showed a decline of 9.5 per cent in 1955 compared to the previous year. Rice exports in 1955 at 170,000 tons were, however, more than four times the exports in 1954 (36,000 tons). Rice prices rose in the latter half of 1955 and the December 1955 wholesale price of second grade rice in Taipei was about 17 per cent higher than the price a year ago. To deal with the situation, rationing of rice was introduced in Taipei, Keelung, Tainan and Kaohsiung early in November 1955. Prices, however, continued to rise and by March 1956, the wholesale price of second grade rice was 4 per cent higher than in December 1955.

Other commodities

During 1955, most of the export commodities showed increases in production and exports. Tea and rubber production attained new heights, and jute production did not probably differ materially from the large production of 1951/52. Copra and sugar production also increased albeit moderately. Cotton production alone showed a decline except in mainland China where the 1955 production was reported to be 1,518,000 tons or 43 per cent higher than the 1954 production. Perhaps more important than the increases in production were the sharp increase in exports. Rubber exports approached closely the 1951 peak and coupled with higher prices brought in larger foreign exchange earnings to almost every exporting country. Increases in cotton, jute and sugar exports were, despite relatively lower export prices, generally large enough to bring in increased foreign exchange earnings, while expansion in copra exports from the main exporting country—the Philippines—helped soften the impact of price declines on foreign exchange earnings. One commodity of which both the volume and value of exports declined was tea. India, Indonesia and Pakistan shared in the reduced volume and value of tea exports, but Ceylon succeeded in increasing both the volume and value of tea exports.

In some respects the situation in the first quarter of 1956 was essentially a continuation of the trends noticeable earlier. The volume of exports of a number of commodities (sugar, tea, cotton, jute, copra) showed sizeable increase over the corresponding exports for 1955 and, except in the case of tea and copra, the increases registered were large

enough to bring in increased foreign exchange earnings despite relatively lower prices in some cases. In the case of rubber, the volume of exports from the major exporting countries—Malaya and Indonesia—tended to decline but those from the relatively smaller exporting countries increased. Value of rubber exports in the first quarter of 1956 was generally higher except in the case of Indonesia and Ceylon.

The general market situation, however, appeared rather weak in early 1956. Price declines were registered by a number of export commodities towards the close of 1955; and though the export prices in several cases (copra, cotton, jute, and sugar) recovered somewhat early in 1956, they remained, as a rule, relatively lower than the prices for the corresponding period of 1955. The position of some important commodities is examined below.

Tea: Owing to favourable climatic conditions and more intensive pluckings, the 1955 production of tea increased in Ceylon and India; despite shortfalls in production in Indonesia and Pakistan, the total 1955 production in these four countries was at an all-time high. In the first quarter of 1956, total production in these countries was 14 per cent lower than the corresponding figure for 1955, partly due to less favourable climatic conditions in Ceylon and southern India.

The total 1955 exports from the four exporting countries at 798 million lbs. were over 12 per cent lower than the 1954 exports. With the exception of Ceylon, which succeeded in improving upon the record exports of 1954, the volume of exports from other countries declined. In almost every case, the 1955 exports to the United Kingdom were lower, but the decline in the exports from India was rather large (about 72 million lbs.) and accounted for about 90 per cent of the total shortfall in the exports from that country. Lower exports to the United Kingdom were probably due to the restrictions on credit in that country, the administrative difficulties associated with tea exports, increases in domestic consumption, and, in some cases, shortfalls in production as well, in producing countries.

In the first quarter of 1956, total volume of exports from the four major exporting countries was 23 per cent higher than the corresponding 1955 exports. While exports from almost all the countries were higher, the increase was most marked in the case of India, due to larger exports to the United Kingdom. Improvement in the import demand for tea was attributable partly to expectation of lower production in Ceylon and southern India, though the removal, early in 1956, of restrictions on shipments from India to London for auction might have been a contributory factor.

Prices of tea were lower in 1955 than in the previous year, by 17 per cent for north Indian tea and by 16 per cent for Ceylon tea. Reduction in the volume of exports combined with lower prices resulted in lower foreign exchange earnings except in the case of Ceylon. In the first quarter of 1956, prices of both north Indian and Ceylon teas were appreciably lower than the prices prevailing in the first quarter of 1955, and despite better volume of exports in the first quarter of 1956, the foreign exchange earnings were lower than the corresponding earnings for 1955.

Rubber: Rubber consumption continued to expand until it reached an all-time high in 1955. Under the stimulus of higher prices, production also expanded. In the first half of the year consumption exceeded production, but in August, September and December exceeded consumption. For 1955 as a whole, total production exceeded consumption by 46,000 tons or by 20 per cent more than the corresponding excess for 1954. Prices started declining from October onwards and in April 1956 the Singapore price of R.S.S. No. 1 was M\$0.9056 per lb. or 39 per cent lower than the peak price of September 1955. Although both

production and consumption declined in the first quarter of 1956 and consumption exceeded production, the downward tendency of prices was sustained probably by expectation of further declines in consumption on account of cut-backs in automobile production in the United States and the United Kingdom and possibilities of increased competition of synthetic rubber.

In 1955 the region's rubber production, which increased by 6 per cent over the 1954 output, was at a record height. With the exception of Indonesia, and Ceylon almost all the producing countries shared in the increase. Production in the major producing countries in the first quarter of 1956 was lower than in the last quarter of 1955, but with the main exception of Indonesia, was generally higher than in the first quarter of 1955.

Total net exports of rubber from the countries of the region showed an increase of more than 6 per cent in 1955 over the 1954 exports; again with the main exception of Indonesia and Burma almost all the exporting countries shared in the increase. Owing to the relatively higher prices obtained in 1955, foreign exchange earnings from rubber showed an increase in the major exporting countries. In the first quarter of 1956, exports from most countries were higher than the corresponding exports for 1955 and so were the foreign exchange earnings. However, in Indonesia, Malaya and Burma, the volume of exports, as also of foreign exchange earnings, in the first quarter of 1956 were lower than the corresponding figures for 1955.

Jute: The total 1955/56 production of jute in Pakistan and India at over 2 million tons exceeded significantly the production in the preceding two seasons and closely approached the high level attained in 1951/52. The greater increase in Pakistan was reflected in the heavy arrivals of raw jute in the important baling centres of East Pakistan which, in the first nine months of the 1955/56 season, exceeded by over 53 per cent the corresponding figure for the previous season.

Domestic prices were rather low in July 1955 in East Pakistan but improved in August following devaluation of the rupee. Thus, the price of white jat bottoms rose to Rs 24/8 per maund in August from the low level of Rs 18/8 towards the end of July. Export demand improved appreciably in the last quarter of the year and the domestic jute price increased to Rs 28/8 per maund. Despite some rise in domestic prices, the unit value of jute exports in terms of foreign currencies was 22 per cent lower in the third quarter of 1955 than in the second quarter; in the last quarter of 1955 the unit value was only 2 per cent higher than in the third quarter. Volume of exports increased further in the first quarter of 1956 and, with reductions in stocks, export prices tended to rise. Thus, in March 1956, the unit value of jute exports was about 11 per cent higher than the average for the last quarter of 1955, but still 12 per cent lower than in the first quarter of 1955. Total exports of raw jute in the first nine months of the 1955/56 season at 897,000 tons were over 23 per cent greater than the corresponding exports for the previous season. Over 98 per cent of the increase in exports in the first eight months of the 1955/56 season was accounted for by the increased exports to India and mainland China.

Large imports into India were due to increase in mill consumption which was in turn sustained by larger exports of jute goods and increased domestic utilization. Production of jute goods in the first nine months of the current season exceeded the corresponding production for the previous season by 6.7 per cent. Shipments of jute goods in the first nine months of the season exceeded by 1.5 per cent the corresponding large exports of the previous season. During the same period despatches from mills for internal consumption increased by more than 54 per cent.

Cotton: During the 1955/56 cotton season, total production in India and Pakistan at 5.3 million bales or 1,149,000 tons was 7.5 per cent lower than the output in the previous season, owing largely to the damage caused by floods. The major part of the shortfall in production was accounted for by short staple cotton, particularly in Pakistan where the 1955/56 output of medium staple cotton exceeded that of the previous season despite a small decline in overall production. On the other hand, production in mainland China was reported to have increased to 1,518,000 tons, i.e. by 43 per cent over the 1954 level.

Compared to the previous season, stocks in the beginning of the 1955/56 season were about 31 per cent greater in India but 6 per cent lower in Pakistan. Consumption was expected to increase in 1955/56 both in India and Pakistan largely in response to increased domestic demand for cotton textiles. Contrary to earlier expectations, cotton consumption in Japan increased appreciably early in 1956 under the influence of a sharp increase in textile exports and the total consumption of cotton in the first eight months of the 1955/56 season did not differ materially from that of the previous season. Imports of raw cotton in Japan in the first eight months of the 1955/56 season were over 5 per cent higher than the corresponding imports for the previous season.

Exports of raw cotton in 1955/56 increased sharply both from Pakistan and India. Thus, exports from Pakistan in the first eight months of the 1955/56 season increased by 66 per cent over the low exports of the previous season and the corresponding increase in the case of India was 309 per cent. These large increases were attributable partly to the general improvement of export demand in the second half of 1955 and partly to the steps taken by the surplus countries of the region to encourage exports. These included the devaluation of the rupee in Pakistan, the abolition of export duty in India, and the placing on the market of an export quota appreciably larger than that of the previous year. In the second half of 1955, two-thirds of the exports from Pakistan were to Japan, Hongkong and mainland China. In the case of India 48.5 per cent of the exports in the first eight months of the 1955/56 season were to Japan.

Owing to the expectations of a change in United States export and price policy, world market prices of cotton registered a decline in the latter part of the 1954/55 season. The downtrend in prices continued in the first few months of the 1955/56 season and was more marked in the export prices of cotton of non-U.S. growth. The trend of cotton prices at Karachi was similar to that in the world market. There was a small rise in prices in February followed by a decline in March 1956 when the price of 289 F Punjab SGF at 31.32 US cents (including export taxes) was 8 per cent lower than a year ago. The outlook for prices appeared bearish owing partly to the decision of the United States government to sell for export at competitive prices all qualities of cotton owned by the Commodity Credit Corporation, with a view to recovering for the United States its traditional share (of 5 million bales) of the world market.

Sugar: The 1955 production of centrifugal sugar increased in countries of the region except the Philippines. Consumption too increased and, in many cases, increases were covered to an appreciable extent by domestic production. However, the volume of exports also increased in the Philippines and China: Taiwan, and the increases registered were sufficiently large to bring in higher foreign exchange earnings despite lower export prices. In Indonesia both the volume of exports and foreign exchange earnings were lower.

Production of factory sugar in China: Taiwan at 803,000 tons in 1955 was 25 per cent higher than that

of the previous year. Exports at 586,000 tons exceeded by 12 per cent the 1954 exports and were also higher than the final export quota of 549,396 tons under the International Sugar Agreement.

In Indonesia, the 1955 production, largely for domestic consumption, was 19 per cent higher than that of previous year. Exports increased sharply in the last quarter of 1955 following abolition of the export tax on sugar but the total exports for 1955 at 176,000 tons were 17 per cent lower than in 1954. In the Philippines, although production of centrifugal sugar was 4 per cent lower than the previous peak production, exports in 1955 were at a post-war high.

Over 75 per cent of the 1955 exports from Taiwan and over 92 per cent of the exports from Indonesia were to the countries of the ECAFE region. As in the past, the bulk of the exports from the Philippines were to the United States. Production in 1956 was expected to increase in Indonesia and Taiwan but was expected to decline again in the Philippines.

In the first quarter of 1956, exports from Indonesia and Taiwan were higher than the respective corresponding exports for 1955. 1956 exports from Taiwan were expected to increase appreciably over 1955 exports as well as the basic quota under the International Agreement, and the authorities concerned had indicated their intention to withdraw from the International Agreement.

On the other hand, exports from the Philippines in the first quarter of 1956 were about 10 per cent lower than the corresponding exports for 1955; owing to lower production, total exports in 1956 may go down compared to the record exports of 1955.

Except for two months, the world price of sugar in the second half of 1955 generally remained below the minimum price under the International Agreement. However, in the first quarter of 1956, sugar price improved and was above the minimum price.

Copra and coconut oil: The total 1955 production of copra in the ECAFE region (excluding mainland China) was slightly higher than in 1954. Of the main exporting countries, Ceylon and the Philippines had higher production in 1955 while in Indonesia and Malaya output was lower. Volume of 1955 exports of copra and coconut oil (in terms of oil) from Ceylon and the Philippines was at record heights, but lower from other countries. Relatively lower prices in 1955, combined in many cases with lower volume of exports, resulted in lower foreign exchange earnings except in Ceylon.

Production in Ceylon during 1955 at around 260,000 tons was over 18 per cent higher than the 1954 output; exports of copra and coconut oil exceeded by over 41 per cent the low 1954 exports and were at a post-war high. In Indonesia, the 1955 production was 4 per cent lower than in 1954 due to a variety of reasons including plant diseases and insecurity. Owing to increasing domestic consumption and limited changes in production, exports have been tending to decline during the past few years. During 1955 this tendency was reinforced by the shortfall in production. Purchases of copra by the Copra Foundation were 14 per cent lower than the 1954 purchases but exports of copra were down by 20 per cent. In this context it might be noted that despite substantial reduction of the export tax on copra on 24 October 1955, exports in the last quarter of the year were lower than in the third quarter. In the Philippines, production in 1955 was higher by about 6 per cent; exports of copra and coconut oil (in terms of oil) increased by 4 per cent and were at a post-war high.

Nearly 40 per cent of the copra exports and over 94 per cent of crude coconut oil exports from the Philippines in 1955 went to the United States. About 20 per cent of the exports from Indonesia were to mainland China.

The trend of Copra export in the first quarter of 1956 was similar to that of 1955. Exports from the Philippines and Ceylon were higher while those from Indonesia and Malaya were lower.

Prices of copra generally ruled easy at Singapore in the second half of 1955 and fluctuated between narrow limits. However, in the Philippines prices declined sharply in the second half of 1955, the December price being 14 per cent lower than the July price. In the first five months of 1956, prices increased appreciably, owing partly to improved demand and partly in sympathy with the international prices of edible oils. It may be noted that in the first months of 1956 there was a general rise in the prices of liquid edible oils, the May 1956 FAO index of prices of liquid edible oils being 50 per cent higher than a year earlier. This was attributable largely to the big purchases authorized under the government export programme of the United States between September 1955 and May 1956.

(To be Continued)

PEKING AND THE MINORITIES

China has always been touchy about the intense degree of dependence on the Soviet, which was undoubtedly far greater than her subjection to the "Capitulations" during the years of Extraterritorial Rights. The regime that was instituted, therefore, was one of maximum invisibility of the Soviet experts and maximum aid and advice in every department of activity (save in the case of private industry and commerce, where Soviet aid was quite unnecessary, since the manager and proprietors knew their business). Naturally when the subject peoples (or, as Peking much prefers to put it, the minority nationalities) were turned into autonomous units, and with a minimum of real autonomy, they were guilty of gross misunderstanding. They had expected to be taught how to lift themselves by their own bootstraps—or whatever they had as equivalent—in much the same way as China herself and with just as much tact. But there has in fact so far been little autonomy and less invisibility. Nobody can gainsay the fact that the Chinese Communist cadres are pushing the aboriginal and other peoples along the road of progress and making them work as they have never worked before. But, like China, they had hoped to run their own affairs and decide the pace and degree of their transformation.

After all, the Chinese Communists had long ago proclaimed the right of the national minorities to self-determination and even secession from China. The Constitution of the Chinese Soviet Republic established under the leadership of Mao Tse-tung and Chu Teh in Kiangsi, between 1931 and 1934 categorically declared that "The Soviet Government of China recognises the right of self-determination of the national minorities in China, their right to complete separation from China, and to the formation of an independent State for each national minority. . . They may either join the Union of Chinese Soviets or secede from it and form their own State as they prefer. The Soviet regime of China will do its utmost to assist the national minorities . . . in achieving complete freedom and autonomy." In April, 1945 (when the seventh Party Congress was held) Mao Tse-tung re-affirmed that the Communists were "in complete agreement" with the principle of acceding the minorities the right to settle their own status.

But as often happens the tune was changed when power was gained. The Common Programme of 1949, far from making provisions for self-determination by the minorities, laid down that they "shall establish unity and mutual aid among themselves . . . so that the People's Republic of China will become a big fraternal and cooperative family composed of all its nationalities." And the minorities were warned by the People's Daily on October 2, 1951 that any national movement which seeks separation from the Chinese People's Republic for independence would be regarded as reactionary, "since, objectively considered, it would undermine the interests of the various races and particularly the foremost majority of the race concerned, and thus would work to the advantage of imperialism." And when it came to justify the Communist invasion of Tibet in 1950, the Ta Kung Pao said on October 18, 1949: "Provided that it plays its part in the war against imperialism, national self-determination is justified. On the other hand, if it is made use of by the imperialists, it is reactionary. . . Our revolutionary China cannot permit Tibet, under British imperialist instigation, to plan for independence."

The Communists keep on denouncing Great Han Chauvinism and keep on insisting in the same breath that they must still run the whole show. The Mongols and others

"misunderstood" regional autonomy in 1950 and they misunderstand it—in rather a different way—now. And though some effort has been made to explain it all to the minorities, actions as always speak louder than words, though the minorities undoubtedly do for the most part appreciate what is being done to put them in the path of progress.

In "transforming" the minority nationalities as well as their own people the Chinese Communists face their biggest problem in Tibet, with its long and almost unbroken tradition of self-rule whether under their own Governments, under Chinese overlordship, or under the relative isolation of the period since the Chinese Revolution of 1911. Some of the more ardent revolutionaries who went in with the "Liberation" Army undoubtedly intended to apply precisely the same measures at precisely the same tempo as had been enforced in their own country. But the revolt in the Tibetan areas of the western part of Szechuan and the attitude of the lamas and certain of the more warlike tribesmen, cooled the fevers of the revolutionaries, and now Peking is depending chiefly on the training of the younger people to impose its faith and its will.

The first Regional Conference of Tibetan Youth, which closed on September 28, established an Association of Patriotic (not Communist) Youth, which is to summon Tibetan youth to work for the construction of "Tibet and the Motherland," and voiced support for democratic and social reforms. More than 1,000 young people from all over Tibet attended the conference. No doubt these youngsters share something of the spirit of the Nationalist youth during the early patriotic student movement in 1919 and are on the side rather of reform and constructive development than of revolution like the Communist Youth in the China of the last decade.

The Preparatory Committee of the Tibetan Autonomous Region also decided on the training of Tibetans for work in industry on a large scale, beginning in the last quarter of the year. Tibetan workers will be admitted to industrial and mining enterprises, and training classes and night schools will be provided for vocational study. At the National People's Congress in Peking on June 27, the chief Tibetan administrative official Ji Jigme revealed that in addition to sending a large number of young men and women to the Central and South-west Nationalities Institutes to study, the authorities in the Tibetan area have organised officers of various ranks to study and established in Lhasa a Cadres School and in the Panchen Kanpo Lija a cadres training class. Primary schools in the major cities have Young Pioneer organisations and large numbers have joined the Youth League organisations or taken up posts "to help build a new Tibet."

The Peking mission under Vice-Premier Chen Yi gave "extremely important instructions and guidance," evidently more or less in line with Mao Tse-tung's own cautious ideas on the subject, for Jigme spoke of improved relations and greater unity in Tibet itself as a result. He accepted social reform as inevitable if the Tibetans wished to get rid of their backwardness and in view of the increasing Socialist advance in China and the various construction enterprises in Tibet. Peaceful reform, however, should start from the top to the bottom in order to change for the better and not for the worse. In the winter and spring reforms on an experimental basis are to be carried out in certain parts of Tibet, such as reduction of debt or exemption from debt, and abolition of the Ula system (unpaid labour) so as

to obtain experience and then conduct reform properly and universally when conditions are ripe.

Just how far Jigme is able to speak for and commit his own people is a moot point, but it is unlikely that even his cautious enthusiasm for the Communists whom he serves is shared by many others, except perhaps among the younger people. These have caught something of the strange, resurgent atmosphere which has suddenly swept across Asia and awakened its multi-millions from their immemorial lethargy and passivity. In Outer Mongolia the Soviet Russians were pretty patient and skilful. They left the Army of Occupation to exercise control and let the Mongol collaborators walk or run according to their own gait. They put down a Nationalist plot involving both the Manchoukuo and the Japanese leaders as well as the Mongol Government in the thirties, but they left the pace of domestic change largely to the Mongols themselves.

The Communists still think of the existing system among the Tibetans as feudalistic slavery and they do not relish the brakes put upon their ardour. The former headman who "gave up privileges of feudal exploitation" in the Apa Tibetan autonomous Chou (Suo Kuan-ying) made much of the great improvements in cultivation, crop techniques, and in output. But he repeated the official Communist excuses for the suppression of the uprisings which, he said, were "disadvantageous both to the unity of the Han Chinese and all nationalities and to the development programme

of the Tibetans themselves." Much the same attitude was shown by Wang Hai-min of the Liangshan Yi nationality autonomous chou in Szechuan, though he talked more like an out-and-out Communist zealot than a member of the Yi minority people. He made it quite clear, that so far as the administration there was concerned, they had treated the "slave masters" precisely as they had treated the landlords in China during the "land reforms." The so-called slave system was abolished, the "slaves" set free from the tyrannical rule and exploitation of their masters, and the land, surplus draught animals, farm implements, houses, and grain confiscated, expropriated or requisitioned. But they "magnanimously" decided not to hold the "slave masters" to account for past crimes, nor to hand over their deposits or face mass trial by terror.

This man made a virtue of this spirit of abnegation, and if there are many more like him there is bound to be plenty of trouble in store for the zealots. He, too, blamed the uprisings on "covert KMT agents" who had "fanned some slave masters to rise in rebellion with the object of obstructing the enforcement of democratic reform and the liberation of the slaves." While it may be possible to get away with this sort of thing in areas where the Chinese are nearer their own populous areas and military, in the vast wasteland of Tibet it would in the long run be fatal. And the wiser heads among the Chinese seem to have come to realise this.

PARTY CADRES AND PRIVATE PERSONNEL IN CHINA

The period in China just now, and for some time to come, will be one of difficult readjustment of relations between the Party cadres and the trade unions, the managers, and the workers themselves. The status of so many of "the enemy" has changed, and it is no longer so easy to denounce the bourgeoisie and get away with it. Workers who spat in the faces of their former bosses now find the managers confirmed in their posts and holding honourable status in the proletarian State. It will not be easy for the Party folk to alter their tone, any more than it was for the trade union leaders to adjust their role as between the interests of the State and the interests of the workers.

One of the major problems is the relations between the managers and the local Party cadres. The issue came up at the Party Congress, when speakers, claiming to speak for many comrades, emphasised that the Party committees know nothing about business management. They held that the director of the factory is the representative of the State and that if the Party Committee were officially in control of the enterprises, they should share the responsibility. The revised Party Constitution takes care of this vexed issue in favour of the Party Committee, which will decide all major questions affecting production and administration, and the manager will have to carry out these decisions and accept responsibility for them as well as for the day-to-day administration, in which the Party people will not interfere.

This issue, incidentally, was one of the major matters brought up during the recent ferment in Poland. The Director of Local Planning in the State Economic Planning Commission in Warsaw, M. Kowalecz, contributed an article to the Polish Communist Party organ on October 15 in which he asserted that the machinery of local government in Poland was weak because the men who carried on its daily work had been chosen in the past for their politics rather than their ability and education. He suggested that

the newly-elected executives of town and county councils should attend lectures and undergo training in an efficiency-run county council. He pointed out that in the immediate future several hundred factories, cultural institutions, vocational schools, sanatoria, retail organisations and food industry are to become subordinate to the local councils. The officials must be trained or there would be chaos and decentralisation would fail through sheer incompetence. Two major problems involved in the revision of the Constitution of the Chinese Communist Party were the development of internal democracy and the improvement of co-operation between the Party cadres and private personnel. Teng Hsiao-ping's Report on the Revision of the Party Constitution was almost as long as the Political Report. He made it clear that the draft had been discussed by Party organisations in all localities and had undergone much revision. When the last Congress was held in Yenan in April, 1945, the vast majority of the 1,210,000 Party members were in the rural areas. Party members in the areas controlled by the Kuomintang or occupied by the Japanese were working underground. Now all had changed. The tremendous achievements of the Party in all spheres of Socialist construction had brought about a fundamental change in class relationships. The working class had become the leading class of the State; the peasantry had changed from individual farming to co-operative farming; and the bourgeoisie as a class were on their way to extinction. The CCP is now the party in power, playing the leading role in all the work of the State. Most Party members are now working in Government offices, economic and cultural establishments and people's organizations at all levels.

The danger of drifting away from reality and from the masses has increased, says the report, and the position of the Party as the one in power can easily breed arrogance and self-complacency among the membership. Supervision

is needed within the Party, and supervision of the Party organisations and members is also necessary by the masses and by non-Party personalities. "The crucial thing about supervision, whether coming from inside or outside the Party, is to promote the democratic life in the Party and the State, and to develop our Party's traditional style of work, 'a style of integration of theory with practice, close contact with the masses, and the practice of self-criticism,' as expounded by Mao Tse-tung in his report to the Seventh Congress in 1945."

The general programme of the draft Constitution contains many changes, especially in the political field. The question of the Mass Line is not a new one in the work of the Party. Education on this had been inadequate. Experience in the last 11 years had also given the mass line a richer and more profound content. The Mass Line has two aspects: firstly it maintains that the people must liberate themselves and that the Party's entire task is to serve the people and indicate to them the direction of struggle. Secondly, it means that the Party's ability to go on exercising correct leadership hinges on its ability to adopt the method of "coming from the masses and going back to the masses." This means summing up and systematizing the scattered views of the masses, then taking the resulting ideas back to them, explaining and popularising them until the masses embrace the ideas as their own, stand up for them, and act on them. The Mass Line in party work demanded that the Party leadership should conduct itself with modesty and prudence. Arrogance, arbitrariness, rashness and habits of pretending to be clever, of not consulting the masses, of forcing one's opinions on others, of persisting in errors to keep up prestige—all these are "radically incompatible with the Party's Mass Line."

Teng Hsiao-ping went back to the early days, when soldiers carried water for the local inhabitants; when officers placed blankets over sleeping soldiers; the many "collective wisdom" meetings in the trenches; the care for the health and self-respect of the captured—all small things that had nevertheless a big part in the ultimate triumph. Now, alas, bureaucratic tendencies are springing up. Leading bodies and cadres hold themselves aloof and do not come into contact with the masses. Too much paper, too many meetings, too little consultation with subordinates and the masses, too much routine and red tape, too much empire-building within departments. Many artificial barriers are thus set up; problems are mishandled or left unsolved; the comrades become conceited, exaggerate the role of the individual, and emphasise personal prestige. They lend a willing ear to flattery and praise but cannot stand criticism or supervision. Some of bad character even stifle criticism and take reprisals against their critics. Instead of serving the people they abuse their authority over them and do all manner of evil deeds in contravening law and discipline. Another widespread form of bureaucracy is commandism. Decisions are taken and instructions issued without consulting the masses.

Among the measures to ensure the carrying out of the Mass Line stressed by Teng Hsiao-ping were the importance of the leadership going among the masses and closely studying their experiences and opinions; the strengthening of the democratic life in the Party and the country so as to ensure criticism from below; the strengthening of supervision by the Party and the State so as to discover and correct all kinds of bureaucratic practices and mete out due punishment to those who have violated law and discipline; and the check up of working styles regularly.

"In the struggle to carry out the mass line and combat bureaucracy it is of vital importance to strengthen still further our co-operation with non-Party people, and to draw as many of them as possible into the struggle. . . Comrades

reluctant to co-operate with non-Party people must be made to understand that this co-operation is a long-term affair and was fixed long ago. Ever since the period of the anti-Japanese war, our Party has been pursuing a policy of co-operation with democratic personalities outside the Party."

Democratic Centralism is the Party's Leninist organizational principle. The Party depends on all its members and organisations to maintain contact with the broad masses. Teng spoke of the evil of Departmentalism, in which Party cadres liked to make their particular department a little world of their own, to act at will on political questions, disliked the Party's direction and supervision and did not respect the decisions of the higher organisations and the Central Committee. They neither sought prior instruction nor submit any report afterwards. Committee membership thus became nominal. The decision of the Central Committee stressing collective leadership in September 1948 was reiterated, calling for a sound system of party committee meetings in all organisations from top to bottom, though these meetings must not take up too much time or be bogged down in discussion of minor matters. In the PLA the system of division of responsibility among commanders under collective leadership of Party committees had proved beneficial. The system of personal responsibility for the factory director under collective leadership of the Party Committee would be carried out in all enterprises.

Another measure designed to strengthen inner-Party democracy is the stipulation of the revised Constitution that delegates to the National, Provincial and County Congresses would be elected for a term of three or five years as the case might be. The congresses would meet each year to discuss the more important questions and would thus exercise more effectively their functions as the highest policy-making and supervisory bodies of the Party.

On the role of Party leaders, Teng Hsiao-ping pointed out that Marxism, while acknowledging the masses as the makers of history, had never denied the role of outstanding individuals or the role of leaders of a Party. The prestige, experience and influence of the leaders were very precious assets of the Party, the class and the people. But the leader of a working class party was one who was among the masses and the Party and not one who placed himself above the masses and the Party. "Love and support for the leaders which was affection for the class and the Party and people, had nothing in common with the worship of any individual. The Chinese Party had always taken the view that no individual or political party would be without weaknesses and mistakes in all their activities. While striving for a higher standard among Party members, the Party at the same time extended their democratic rights, which included the following stipulations in the revised Constitution: (1) That the full development of individual initiative be set forth as a right of Party members; (2) that a Party member could reserve his opinions or submit them to a leading body if he disagreed with a Party decision, while carrying it out unconditionally; (3) that encroachment on the rights of Party members was a breach of Party discipline and should be penalised. Concerning the duties of Party members, one of the new provisions called upon Party members to safeguard the Party's solidarity and consolidate its unity.

Teng Hsiao-ping laid special stress on the fixed terms given to the higher Party organs—five years for the National Congress and its delegates; three years for Provincial delegates; and county delegates two years. Congresses at all three levels are to be called in session every year. Congresses may be convened at any time during their term of office, and as they will meet annually they need not be elaborate affairs. The Central Committee and the provincial and county committees must submit annual reports to

REPORTS FROM CHINA

AGRICULTURAL OUTPUT

Grain Harvest: Szechwan's grain output this year topped the quota originally set for next year according to the provincial agricultural department. The actual output reached 22.25 million tons. The province anticipates a surplus of 1.8 million tons of grain this year. More than 80% of the province's 12 million peasant households are now in cooperatives. Inner Mongolia has gathered a record grain harvest this year, surpassing its 1957 target. The total output is 4,550,000 tons, 1,300,000 tons more than last year. Per-hectare yields in some places are 10% greater than last year.

Sugar-Cane: A good sugar-cane harvest over 37,000 hectares in Szechuan was reported. In the Tokiang River Valley in the central part of the province, despite the flood this year, the crop is estimated to be 60% above last year.

Peanut in Shantung: This year's total yield of shelled peanuts in Shantung is estimated at 900,000 tons, according to the provincial department of agriculture. The figure will be 30% more than in 1954. Shantung accounts for three-fourths of China's peanut exports annually.

More Tobacco: Peking claimed that China had reached its 1957 tobacco target one year ahead of schedule. Tobacco output this year is 125,000 tons more than in 1952. Yunnan produced four times more than in 1955. Shantung and Honan reported greater per-hectare yield this year.

INDUSTRIAL DEVELOPMENT

Soviet Equipment: Machinery and equipment for the 156 key enterprises in China imported from the Soviet Union this year included power equipment; mining, metal rolling, metal forging and pressing equipment; tractors and farm tools. U.S.S.R. also supplied fertiliser, insecticide and various raw materials. By the end of September this year 73% of China's import contracts under the 1956 Sino-Soviet trade agreement were fulfilled. A trade delegation will leave for the Soviet Union in the near future to negotiate a trade agreement for 1957.

New Products: Two types of long-draft spinning frames designed by Shanghai engineers were approved by the Ministry of the Textile Industry for serial production. The new spinning frames permit the cotton strands to be drawn out to 40 times their original length. Those now in use in China only allow a draft between 12 and 18 times. Textile engineers in Shanghai are continuing researches with the object of making spinning frames of a draft up to 160 times or those capable of entirely eliminating roving prior to spinning. Trial-production of a 600-HP heavy-type marine diesel oil engine was completed recently in Shanghai. The designs were based on Czechoslovak and other data.

the respective congresses, listen to their criticisms and answer their questions. He mentioned, incidentally, that the total membership of the Party is now 10,734,384 (1.74% of the total population). Of this, 1,502,814 (14%) are workers; 7,417,459 (69.1%) are peasants; 1,255,923 (11.7%) are intellectuals; 558,188 (5.2%) are of other social status. Women constitute about 10% of the total membership. According to a rough estimate, there are 300,000 Party cadres above the rank of county party committee members and the quality of their work is regarded as of vital importance to the cause of the Party.

New Factories: Construction of a new stamp printing works started in Peking last month. The plant will have 200 machines each printing 540,000 stamps per hour. Stamps in four colours and coloured postcards will also be printed. The works was designed with the help of Czechoslovak engineers. A modern sugar refinery capable of processing 500 tons of sugar-cane daily started operation recently in the To Kiang Valley in Szechwan. At the beginning of the year, a new sugar refinery equipped to process 1,200 tons of sugar-cane daily started operation in the region. A plant for the distilling of flower essences is now under construction in the outskirts of Canton. By June next year, it will be able to produce two tons of essential oils every year from flowers such as Arabian jasmine and Pai Yu Lan (*Magnolia denudata*). The existing Chungking Iron and Steel Company will be expanded. New steel and iron smelting, steel rolling, seamless tubing, coke oven and chemical departments and shops will be set up. Czechoslovakia will supply some of the heavy-duty rolling equipment. Peking announced that China's pharmaceutical output this year will be 4.28 times that for 1952 and 30.3% higher than 1955. Since 1953 four new pharmaceutical factories have been built and 45 workshops newly set up or expanded in the old ones. An anti-biotics factory now under construction at Shihkiachuang in Hopei will start production by the end of next year. It will produce 60 million million international units of anti-biotics annually.

Power Industry: Peking reported that new hydro-power equipment with a generating capacity of 116,500 kilowatts has gone into operation throughout the country in the first ten months this year. 36% more capital construction for hydro-electric stations was completed than in the corresponding period last year. With the exception of the equipment for the Fengman Hydro-electric Station, which was supplied by the Soviet Union, the equipment for other stations was all manufactured in China. A newly laid high-tension transmission line from Fengman to Fushun is transmitting electric power from the Fengman Hydro-electric Station to industrial cities including Anshan and Fushun. Construction of the hydro-power stations projected under the first five-year plan is expected to be basically fulfilled by the end of this year. Recent nation-wide surveys of water resources proved that China has hydro-electric resources of more than 544 million kilowatts. Work has started on the design of a 72,000 kilowatt hydro-power generator which is to be manufactured by the Harbin Power Equipment Plant.

LANGUAGE REFORM

Chinese Alphabet: The draft scheme for the proposed alphabet for the Chinese language has been revised and the new phonetic system will be based exclusively on the Latin alphabet. The five arbitrary letters in the original draft providing for a soft G sound, Zh, Ch, Sh, and Ng have been deleted; Latin letters are substituted for them. A slight change has also been made for two other letters. The revision was decided upon by a special committee under the State Council.

Written Languages for Minorities: The new written language for the Miao people is based on the Latin alphabet. Owing to the great variety of Miao dialects in the different Miao districts the programme provides for three different written versions. The Miaos live in scattered mountainous regions in Kweichow, Hunan, Kwangsi, Szechwan, Yunnan,

Kwangtung and Hupeh. A written language for the 1.2 million Puyi people inhabiting the southern part of Kweichow is also based on the Latin alphabet.

NEW AUTONOMOUS REGIONS

A new autonomous chou was set up by the Hui people, who believe in Islam, in the Linsia Region, Kansu. This autonomous chou near Lanchow has a population of 800,000, belonging to the Hui, Han, Tunghsiang, Paoan, Sala, Tu and Tibetan nationalities. Sixty percent of the inhabitants are Moslems. The region, with its more than 1,000 mosques, is a wellknown Islamic centre in China. Kansu now has four Hui autonomous chou and two Hui autonomous counties.

An autonomous chou was set up for the people of Pai nationality on the western plateau of Yunnan. With a population of 1.5 million people, the autonomous chou also consists of people of Yi, Hui and Han nationalities besides Pai nationality. It covers an area of 30,000 square kilometres and includes Tali and other counties nearby. At present the capital of the autonomous chou, Siakwan, is the economic centre in the western part of Yunnan.

DECENTRALIZATION

Peking has decided to stop the increase of government organs and personnel in order to simplify state organs, overcome bureaucracy and raise working efficiency. The decision pointed to the grave situation in the overlapping and over-staffing of state organs at all levels. It said that this was not only a wastage of man-power, material and financial resources, but encourages the growth of bureaucracy.

DIAMONDS IN HUNAN

More than 100,000 carats of diamonds have been found along the beaches of the Yuan Kiang River in West Hunan

according to a Peking report. The biggest is the size of the thumb of an adult. Some of the diamonds have a brilliant lustre and others are a pink colour. They were washed down from the upper reaches of the Yuan Kiang River. The geological survey team working along the river which found the diamonds is now trying to trace their original sources.

COMMUNICATIONS

Railways: Railways radiating from Chengchow are being double-tracked. Chengchow is one of the busiest centres for railway traffic at present. The sections now being double-tracked consist of a 188-kilometre section to the North of Chengchow and 177-kilometre section to the West. Both will be completed by the end of next year. The entire route of the Peking-Hankow Railway via Chengchow, 1,200 kilometres in length, will be double-tracked during the second five-year plan period beginning 1958. Tracklaying began recently on the 789-kilometre railway between Neikiang and Kunming. Work has started on the 190-kilometre east Sinkiang section of the Lanchow-Sinkiang Railway. This section extends from the Hungliu River in Kansu to Hami in Sinkiang. The whole section that runs through Sinkiang covers 1,230 kilometres. It is the westernmost section in Chinese territory of the Lanchow-Urumchi-Aktogai Railway, which, when completed, will shorten railway transport between Peking and Moscow by more than 1,000 kilometres compared with the China-Mongolia-USSR railway that runs through the Mongolian capital, Ulan Bator. The tracklaying work along the Yingtan-Amoy Railway has reached Kuokeng, the first station in the Kiulung River area, which is only 59 kilometres from Amoy.

New Peking Airport: A modern airport capable of landing and servicing all available types of aircraft is being built in the outskirts of Peking. Construction work started in June 1955. The main runway, radar-equipped control rooms and a railway and a highway leading to the city are all nearing completion.

PRICE STABILITY IN TAIWAN

Commodity prices in Taiwan went up considerably in November 1955 (over 10% compared with September 1955). Therefore, beginning from 1956, the Government made a determined effort to check them from further advances; it contracted bank credits, curtailed government expenditures, and provided adequate supplies of commodities (including imports). There was also the bumper crop in rice in the spring to help improve the situation. So, as a result, prices have been quite steady during the last eight months, ending August 1956. The Government can claim that its price stabilization policy has been an outstanding success.

According to price statistics published by the Bureau of Accounting and Statistics of the Provincial Government of Taiwan, considered the best statistics available in Taiwan, the general index of the wholesale prices in Taipei for the last eight months in this year fell from 790.57 in December 1955 to 770.54 in last August, a drop of about 2.5%. As seen from the following figures, six of the last eight months registered signs of falling prices over the previous month, with only two months showing slight rises. The lowest level was registered in last March and July.

	General Index (June 15, 1949 as 100)	Compared with Previous Month
November 1955	789.01	
December "	790.57	
January 1956	771.90	—
February "	770.47	—
March "	768.28	—
April "	781.33	+
May "	781.27	—
June "	776.85	—
July "	768.71	—
August "	770.54	+

It is to be noted, however, that although the general index indicated a declining trend during the last eight months, such a trend was by no means uniform with all groups of commodities, not to say all individual commodities. While indices for food and apparel have fallen, those for fuel and building material have continued to rise. During the last eight months, fuel index went up by 12.4% and building material by 9.5% whereas food index fell by 2.5%, metals and electrical material index by 12.5% and clothing index by 18.1%.

The fact that in this year prices have moved in different directions indicates, on the other hand, the absence of a

single, general factor, such as monetary inflation, in causing the price movements. Such a factor as monetary inflation would cause all prices to go up without exceptions. It may be inferred, therefore, that the price movements in Taiwan this year have been largely due to individual causes—demand and supply conditions of each commodity, or of each group of commodities.

In Taiwan does not exist a comprehensive price index for exports. The index compiled by the Bank of Taiwan consists of private exports only, constituting no more than 20 to 25% of Taiwan's annual total export value. Therefore it would not reflect adequately the whole export situation. On the other hand, if the prices of sugar and rice, which are the chief items of governmental exports, were included in calculating the export price index, the index would be predominantly governed by the prices of sugar and rice alone, because the index is a weighted average and the value of sugar and rice exports put together usually comes to as much as over 70% of Taiwan's total export.

According to Bank of Taiwan's index, there has been a steady decrease in the general index of export commodities during the past eight months. The drop is as much as 15.4 points between December 1955 and August 1956 as seen from the following figures:

		General Index (average of 1955 as 100%)	
December	1955	106.5%	
January	1956	106.2	
February	"	105.7	
March	"	103.4	
April	"	97.4	
May	"	92.7	
June	"	91.0	
July	"	90.4	
August	"	90.1	

But export prices also did not all move in the same direction; while the prices of tea, citronella oil, feathers and black sugar have declined considerably, those of banana and canned pineapple have risen appreciably, if not considerably. Here are their index figures:

(average of 1955 as 100%)		57.1% as in August 1956	
Tea	46.2	"	"
Citronella Oil	122.1	"	"
Banana	121.6	"	"
Canned pineapple	91.2	"	"
Feathers	78.6	"	"
Black sugar			

The import price index is also compiled by the Bank of Taiwan. The general index has shown a fall of 8.1% from December 1955 to August 1956. But it should be

noted that even the August figure is still above 100%, which means that import commodity prices in this year are in general still higher than in 1955, despite the declining tendency.

		General Index (average of 1955 as 100%)	
December	1955	113.7%	
January	1956	110.9	
February	"	111.8	
March	"	111.0	
April	"	109.0	
May	"	108.4	
June	"	108.3	
July	"	106.2	
August	"	104.5	

The group indices for imported foodstuff and clothing material did not show any definite falling tendency during the period, although the other group indices for imports did. It seems that the prices of imported metals, machinery and tools declined the most.

The cost of living index for civil servants in Taipei is published by the Provincial Government's Bureau of Accounting and Statistics. According to this index, the cost of living of the civil servants did not decrease during the last eight months, but on the contrary increased steadily. It recorded an increase of about 4% during the period, i.e., from December 1955 to August 1956. It seems rather strange that while the wholesale and retail prices were falling, the cost of living did not follow suit. The reason may be found in the fact that the food prices were registered rather low in the month of December in the cost of living index.

The general price situation in Taiwan during the eight months ending August 1956 is satisfactory, although the fact that not all prices moved in the same direction and that food and clothing prices continued to be comparatively low should be borne in mind.

There has been no general cause evident, such as monetary inflation, which caused prices to rise during the period. All the fluctuations in prices may be ascribed to particular demand and supply conditions.

In spite of the steadiness in this year, current prices are still high in Taiwan, especially those of imports.

After eight months of stability, prices registered a sharp upsurge over the last week in September. Rice, vegetables, sugar, peanut oil and other daily necessities all showed a sharp rise in their prices, ranging from 5 to 15%. The immediate cause for such a upsurge was the devastating and extensive damage afflicted on the crops by the successive typhoons.

PROSPEROUS JAPANESE STOCK AND SHARE MARKET

Listed stocks on the Tokyo stock market shot up to Y512.25 in Dow Jones average on June 21 last year—the highest registered not only in the postwar stock transactions, but also since the inception of the Tokyo Stock Exchange. (Dow Jones figures averaged only Y173.03 immediately following the post-war reopening of the Tokyo Stock Exchange in May 1949). In this was reflected the spectacular recovery of Japanese economy, as embodied in increased exports, bumper farm crops, slack trend of money market and declining money rates.

The phenomenal rise in stock prices was not a result of speculation ignoring economic calculation, but a culmination of the healthy upward curve brought on by cautious buyers—mainly, financial institutions. Even the Govern-

ment described this situation as a "quiet boom" or an "economic expansion without inflation."

The Dow Jones average slumped to Y482.87 on July 2 under pressure of various unfavorable factors, such as signs of rising imports, increased disbursements from the Foreign Exchange Account and the adoption of a tight-money policy by the Government. After that, however, the Tokyo stock market rallied again, and finally hit the Y500-mark last August, though failing to top the all-time high of last summer.

The postwar Japanese economy went through various vicissitudes, such as the drastic deflation in 1949 resulting from the policy of super-balanced budget as ordered by U.S. Minister Joseph M. Dodge, and two years of "muni-

tions boom," which started in 1950 with the outbreak of the Korean conflict. Since 1954, however, the nation's economy has pursued a path of gradual development centering around increased exports under the impetus of worldwide economic prosperity.

Present indications are that stock prices will show a steady advance with investors expected to buy on yield-accounting basis after scrutinizing business achievements of corporations. The "democratization" of stocks is the greatest difference of Japan's postwar securities market from its prewar self. In other words, stocks are nowadays possessed by a large number of ordinary people (including womenfolk) and no longer in the grip of a small number of capitalists.

The number of corporations, whose stocks were listed at the Tokyo Stock Exchange as of August 1, stood at 592. Their aggregate capitalization amounted to ¥672,219 million. The number of their stocks listed at the exchange was placed at 12,210,000,000 with a total value of ¥1,439,762 million. 60 per cent of these stocks were in the possession of individuals and not juridical persons. Moreover, individuals accounted for 85 to 90 per cent of stockholders. In other words, stocks were distributed among a great many individuals. This represents the "democratization" of stocks—a characteristic of Japan's post-war securities market.

Then, what factors were there behind this "democratization"? Immediately after the war, Gen. Douglas MacArthur ordered the Zaibatsu (big financial combines) dissolved. This caused stocks, held by a small number of Zaibatsu up to that time, to be released for open sale to the general public. Further, the wealthy class offered their stock holdings to the Government by way of payment of property taxes. The Government then sold these stocks to the general public. Meanwhile, enterprises, which set out for reconstruction after the war, offered their stocks for public subscription. Moreover, it has come into vogue for employees to buy the stocks of their own companies. It can be said, therefore, that the popularization of stocks has already become a definite trend of the day.

To this tendency of expanding the ownership of stocks were added favorable economic factors since 1954, that is, increased exports, bumper farm crops, slack monetary trend and declining money rates. Increased exports by the ship-building, iron and steel and textile industries were induced by the economic prosperity in Europe and the United States. The prosperity of these industries resulting from increased exports gave impetus to the growth and development of related industries. As the profit ratio of corporations increased, stock dividends became stabilized.

Meanwhile, the foreign currency holdings of the Government piled up by leaps and bounds as a result of increased exports. This caused the money market to slacken, and the money rates were reduced for not only short-term but long-term funds as well. This enabled corporations to modify the terms for issuing debentures. For instance, the downward trend of the money rate made it possible to float debentures at the interest rate of 7.3 per cent instead of 8.5 per cent as in the past. This served

to lighten the financial burden of corporations. Declining money rates brought induced investors to turn to stocks.

Such a favorable economic picture for the stock market was even more brightened by the bumper rice crop, which has lasted for two consecutive years. Last year, Japan harvested the biggest rice crop in its history, and this year's harvest also promises to be good. This was conducive to improving the diet and consequently, the livelihood of the Japanese people. The resultant peaceful atmosphere contributed largely toward pushing up stock prices.

Individual investors played an active part. However, large-scale buying by banks and insurance companies provided a major driving force to the rising stock quotations. In 1954, city banks throughout the country increased their investments in stocks by ¥6,000 million. In 1955, the net increase in their stock holdings ran as high as ¥8,500 million. Stock investments by local banks registered an increase of ¥1,800 million in 1954. The figure jumped to ¥3,700 million in 1955.

Life insurance companies—always major stock buyers—increased their stock investments by ¥12,700 million in 1955 as against an increase of ¥5,600 million registered in 1954. As for fire, marine and other damage insurance companies, however, the increment of stock investments declined from ¥5,600 million in 1954 to ¥4,300 million in 1955.

At any rate, it was only natural that a bullish trend, called "financial boom," was generated by the continued investment buying on the part of big financial corporations. Four major securities dealers—Nomura, Yamaichi, Nikko and Daiwa—played an active part as stock-brokers. This was a new postwar phenomenon. After the war, financial institutions (banks) came to invest less in stocks than in prewar days, their place having been taken over by the brokerage companies. That is, the ratio of stock investments by banks to the aggregate deposits in their hands stood at 4.1 per cent in 1954. The figure dropped to only 2.6 per cent in February 1956.

Since last April, the stock market has again followed a steady upward curve. It may be said that this buoyancy is now supported by "buying on business achievements" instead of "investment by financial circles" as in the past. The words "growth stocks" imported from the New York Stock Exchange are now in vogue in the Tokyo stock market. This means that investors are now buying the stocks of those companies which are likely to keep growing in the future.

Another factor in stimulating stock investments is the Taxation Special Measures Law. This law provides that in case a corporation increases its capitalization before Jan. 31, 1957, newly paid-up capital shall be exempted from corporate taxes for two years up to the yearly limit equivalent to 10 per cent of the dividends on newly issued stocks. For this reason, capitalization increase of corporations is expected to add up to ¥120 billion from September through next January. In this way, no letup has yet been seen in the upswing of stock prices.

ECONOMIC LETTER FROM TOKYO

Industrial Production: According to the Economic Planning Board, industrial production index climbed to 223.8 for Sept. over August's 220.2 (1934-36 av. = 100). It is the highest postwar record so far established. This increase is attributed to increased output in all industries except food and printing which were reduced by seasonal reasons.

Industrial Production & Production Facilities in 1960: According to a forecast made by the Ministry of International Trade and Industry, the index of industrial production is expected to reach 300 (1934-36 av. = 100) in fiscal year 1960, that is to say, production is to expand at a rate of 10 per cent on the average every year including

fiscal 1956. On this basis it is only in wool and cotton industries that any excessive production facilities exist. On the contrary, deficiency in equipment will be felt notably in electric power, iron and steel, and other basic industries. Therefore, investments for modernization of production facilities should be more actively continued in those industries.

Fall in Unemployment: The survey of the Statistical Department of Prime Minister's Office showed a decrease in the labor force in September of 24,000 from August at 43,140,000. This is due mainly to the seasonal decline in agricultural lines. The number of completely unemployed persons totaled 560,000, which is 10,000 less than August.

Final Forecast of 1956-Rice Crop: The rice crop estimate as of October 15 made by the Ministry of Agriculture and Forestry forecasts this year's harvest at 69,800,000 koku (one koku is equivalent to nearly 5 bushels) which is 1,170,000 koku less than the Sept. 15 estimate. This is due to the prevalence of wet weather all over the country during the past month. Still it is nearly 2,500,000 koku more than the average year (67,250,000 koku).

Production of Wheat, Barley, etc.: The actual yield this year of wheat, barley, and rye is estimated at 29,160,000 koku by the Ministry of Agriculture and Forestry, which is the third high record established next only to the output in 1954 and 1955.

Middle East Crisis: At a press conference on November 2, Finance Minister Ichimada touched on the economic effects of the Suez trouble, and said that war is inflationary in its effect wherever it may break out. The developments of Middle East situation have already caused a rise in com-

modity and stock market prices here, and the Government is much concerned about the course they would take. The economic strength of Japan is much greater now than at the time of the Korean war, but she cannot be immune from the inflationary pressure of the present hostilities. This is not to say that the Government is considering to take any new economic measures immediately. It depends on the development of the situation in the future, he said.

Monetary System Investigation Committee: The Committee met again on November 8 to continue the discussions on the protection of depositors and Government supervision as well as business control of financial institutions. Finance Ministry officials explained that legislation they would like to have made, which includes the following: (1) establishment, for the protection of depositors, of a (provisionally called) "deposit insurance fund" for each of the different groups of financial institutions, which is to be contributed jointly by each member institution; (2) business control under direction of the Finance Ministry of any financial institution in embarrassment by one of other brother institutions; and (3) enlargement of the Ministry's power of releasing from office or changing the officers of the financial institution in case its management goes wrong.

Plant and Equipment Investment: The Financial Council, on November 8, met to discuss the much talked of loaning of plant and equipment funds by financial institutions. As a result, they came to an unanimous conclusion that, while such investment activity does not seem to have been excessive as a whole, instances of unsound investments are not wanting in some lines of business, and banks' attitude in extending loans cannot always be said to have been considerate and sound.

THE ECONOMICS OF DEVALUATION AND WHAT IT MEANS TO THE PHILIPPINES

By Lorenzo M. Colcol

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"Devaluation of money means a reduction in the weight and fineness of the metal represented by a standard monetary unit or a reduction in the officially maintained exchange rate of the standard or basic monetary unit of a country. Devaluation of money was often resorted to before the 19th century to increase the bullion supply of a country. In modern times, however, money has usually been devalued in attempts to counteract declining domestic prices or to enhance the competitive position of a country in international trade."¹

In short, devaluation is the reduction of the value of the currency of a country in terms of foreign currencies in an effort to promote exports from the country.

Principles of Devaluation

Fundamentally, the ability of a country to buy and import goods and services (visible and invisible items respectively) from other countries depends upon its ability to sell and export goods and services to them. The ideal situation in the foreign trade of a nation is attained when the value of its exports equals that of its imports (equilibrium), for

then, further movements or settlements of balances are avoided. This happens rarely, however, and disequilibrium is common, especially among sick or retarded nations. In the long run imports will equal exports, if permitted to adjust itself through long periods of time. Of course, not without burdens and inconveniences.

In the long cycle or course of adjustment, the country incurring an unfavorable balance of payments will eventually deplete its international reserves and, consequently, becomes unable to import. This situation will bring inconveniences, if not sufferings in the country. In the impatience and unwillingness to bear these burdens and sufferings, governments intervene and frequently apply devaluation in hastening the adjustment.

The devaluation of the currency is generally an alternative remedy of the last resort to well-developed industrial manufacturing nations that may encounter export of balance of payments difficulties. But before resorting to it, they will have applied other measures more appropriate to the particular problems, e.g., attempt to make their products more competitive by reducing costs and improving the quality. To carry out these objectives, modernization of plant and production methods, utilization of by-products, etc., may have to be undertaken. If after having taken

¹ Bryne J. Horton, Julien Ripley, Jr., and M. B. Schnopper. 1948. Dictionary of modern economics. Washington, D.C.: Public Affairs Press. p. 93.

these measures, the country still finds its export products lagging in sales, and provided further, that upon appraisal of the market, there is reasonable certainty that it can be made active by lowering the rate of exchange, then devaluation may be adopted as a supplementary measure; but proper timing and the assurance that other nations will not follow or retaliate into price wars will be essential.

However, competitive or unilateral currency devaluation actions among nations may have been avoided by the establishment of the International Monetary Fund under the Bretton Woods Agreement of 1944—at least, to member nations. Under provisions of the organization, a country which encounters balance of trade difficulties, after making use of the resources of the Fund to a certain extent, and still finds its exchange rate overvalued and has reasonable defense of its action, is free to devalue its currency up to 10 percent of its former value. If the contemplated reduction is over 10 per cent, the permission of the Fund will have to be secured.

At any rate, the devaluation ratio will have to be a compromise between a rate low enough to encourage exports to increase and a rate high enough to cause imports to decrease to the equilibrium level or where exports will equal imports. But this equilibrium position is seldom attained; and, if attained at all, it is only temporary in nature. The problem will reoccur unless the basic cause of disequilibrium is removed. For this reason devaluation is only a palliative device—a sort of shortcut measure for the quick easing of the problem. It does not get into the fundamental cause or causes of imbalance.

Some Advantages and Disadvantages of Devaluation

If the expected effects of currency devaluation materialize, the reduction of export prices would operate to increase exports which should lead to increased production, which in turn, would result in increased employment. The success of the effects expected to materialize, however, depends upon the elasticity of demand² for the various export products, as well as the prevailing economic condition in the importing country or countries. For instance, if the demand for the export product is elastic, a small reduction in its price would result in a large increase in the quantities exported; but if business conditions in the importing country are depressed, the exportation of elastic demand products would be greatly reduced, or cease altogether.

On the other hand, if the demand for the products that are generally exported is inelastic, the reduction in the price hardly affects the quantities exported. In other words, if economic conditions abroad in the importing countries are unfavorable or, if the demand for the export products is inelastic, the devaluation of the currency would have proved useless. In fact, the devaluation in this case will have proved a unilateral harm to the devaluing country, for then, wealth is just being wasted away in the form of high prices of imports, which in turn result in the rise of prices to local consumers. In this case, therefore, the advantages or benefits that may be derived from currency devaluation is limited to that narrow group of "elastic demand goods"—benefits that disappear the moment depressed conditions set in. This proves that devaluation is a fetish; the benefits are more illusory than real. This may have been the case of Mexico.

Besides, there are distinct disadvantages of devaluation, even if the advantages materialize. For instance, the prices of imported goods will increase to meet the devaluation level, or greater—depending upon prevailing circumstances—resulting in increased costs of living which will penalize the fixed income recipients. To the countries, which depend on imports for the greater part of their needs, the effects of currency devaluation can be serious; to them, the demand for imported goods is inelastic, i.e., imported goods in general become necessities, and necessities will be demanded or bought within limits, regardless of price. Deny these necessities to the masses and serious consequences will occur. Since there are no alternative sources of these needs prices will rise rapidly. Discontent and lawlessness, if not subversion, will increase.

American and British Experiences

American and British currency devaluation actions represent the attempts of well-developed countries to use this device as a control measure. The United States dollar was devalued in 1934, by 41 per cent of its original value, when its gold content was reduced from 25.8 grains, .9 fine, to 15.5/21 grains, .9 fine.

The problem facing the country at the time was the great economic depression of 1929, which was most severe among the highly industrialized nations. Many factories, banks, and other types of businesses were either closed or partially operating—resulting in large-scale unemployment. Without going into a lengthy discussion of the causes of depressions, it is sufficient to indicate here that unemployment of this type generally arises from price deflation, which occurs whenever the supply of goods exceeds the demand for them. The over-supply of goods (shortage of demand) during the depression compelled producers to contract output, and unemployment resulted—causing further weakening of effective demand, and consequent downward spirals of price.

There was gloom throughout the land as 16 million workers became unemployed out of a 36 million labor force. There was clamor for government action to raise prices and to promote exports in order to increase profit expectations—making it worthwhile to resume production and re-employ idle workers. In conjunction with other New Deal measures—deficit spending in a large-scale, the Cordell Hull reciprocal trade agreements, the Gold Reserve Act, collective bargaining, etc.—devaluation was adopted as a supplementary device.

In the devaluation of the dollar, the mint price of fine gold rose from \$20.67 to \$35.00 an ounce. This change not only resulted in the movement of gold towards the United States, but also, in a net gain (windfall profits) of \$2,808 million to the government, with the greater part of it—\$2 billion, turned into an Exchange Stabilization Fund. The Philippine peso, by virtue of its being pegged to the dollar 2 to 1, was automatically devalued in this action, from 12.9 grains, .9 fine, to 7 13/21 grains, .9 fine, or one half of the dollar; but the Philippines, so far, has not been reimbursed her "theoretical" gain of \$23 million. This claim is now embodied in the Philippine proposals to the American government.

Although economic recovery took place—slow but gradual—throughout the 20 year period of the New Deal, it was difficult to gauge the effectiveness of devaluation in bringing about recovery. Prices increased slowly, of course, but so did wages. Remember, deficit spending was undertaken in a large-scale, and to raise prices was its immediate objective. Exports increased but little. Judging from these results, expert opinion was of the belief that the part played by devaluation was negligible.

² The elasticity of demand measures the relationship of the change in the quantity of a product sold to the change in price. For instance, the demand for a product is said to be elastic, if a small reduction in the price is accompanied by a proportionately larger increase in the quantities that will be bought. This is true of luxuries or products that have many alternative uses. On the other hand, the demand is said to be inelastic, if a change in price hardly affects the quantities bought. This is true of necessities, or products that have limited or specialized uses.

Great Britain also had her taste of devaluation in 1949, when the value of the pound sterling was reduced from its international rate of \$3.88 to \$2.80 per £1. The flight (or plight) of the pound sterling reflects the rise and fall of England as a world power. This is also of interest to historians and political scientists, for it may have come to pass that the power and prestige of a nation have become intertwined (or entangled) with the behavior of its monetary system as it performs its function in both the national and the international economics. For three centuries, from the 18th to the 20th, "Britannia ruled the waves" and "the sun never set on the British empire." During all that time London was the center of world finance, and the pound sterling commanded all other currencies, including the American dollar, by the rate of \$5 to £1. Thus, when England was at her prime, so was the pound sterling; and as the power of the empire was going down, so did that of the pound.

The British currency had a tradition of free convertibility behind it, but in freely seeking its value and in the attempt to maintain its convertibility, it lost power, from \$5 to \$3.88, from whence it was officially devalued to \$2.80 per pound sterling. The reason given was to promote exports in order to accumulate sufficient exchange to pay for British needs, and, of course, consequently, to attain full employment. The devaluation of the pound sterling was made after consultations with the United States and in conjunction with a \$4,500 million loan from that country.

The reduction of the exchange rate of the pound sterling in terms of all other foreign currencies was made on the premise that the capitalistic nature and productivity of British industry would enable her to fully benefit from it.

At any rate, because of inherent weaknesses, the weight of time and circumstance have begun to affect the British. Her insularity, which was once her defense, long ago, became her weakness; her loss of colonies and foreign investments, her proximity to centers of tensions and frequent involvements in wars, and developments in thermo-nuclear weapons—all have contributed in no small measure to undermining the British economy and the functioning of its monetary system.

Devaluation experiences elsewhere. This paper does not attempt to explore the entire field of monetary devaluation. It is felt, however, that a few representative cases will be sufficient to elicit the message of devaluation: that devaluation of money is only temporary or a palliative remedy in relieving the problems of foreign trade disequilibrium or of unemployment, if the expected effects materialize.

Besides the countries herein cited, other countries like France, Italy and Germany had experiences in currency devaluation, in one way or another, in the past. The German experience, however, was more of a currency depreciation rather than devaluation; depreciation, because the mark was freely convertible at the time, and the loss of value in a runaway inflation was the direct result of Germany's efforts to pay war reparations in the early 1920's, immediately preceding the rise of Adolph Hitler. In that reparation-induced runaway or printing press inflation, German pre-war debts which were contracted when the mark was worth about \$.24 in gold, were conveniently paid off, as the value of the mark dropped, to millions, billions, and even to a trillion paper marks, per pre-war gold mark. This is debt repudiation by inflation as distinguished from debt repudiation by abrogation. While repudiation by abrogation is less harmful to the economy than repudiation by inflation, both have practically the same result to the creditors.

The Mexican Experience and the Philippine Set-up

The Mexican experience is perhaps the saddest case in devaluation adventures. It is unfortunate that such an underdeveloped country like Mexico had to indulge in currency devaluation as a national policy. Devaluation is not generally the weapon of underdeveloped countries. Yet, though improper, it has become chronic to Mexico. And she is now powerless to refrain from it. It seems that the Mexican situation is similar to that of a person who has tried purgative for improving elimination and has been doing it ever since.

From an original value of approximately two to one (P2.188 to \$1.00) to the United States dollar in 1900, the Mexican peso has been four times devalued from 1931 to 1954, the latest time was this year when it was reduced from P8.65 to P12.50 per U.S. dollar—thereby sustaining a P10.53 loss of value in 23 years. These are catastrophic losses of Mexican wealth—a lesson which other underdeveloped countries may well take notice with sobering thought. A Mexican student or traveler going to the United States in 1930 needed only P2,000 to get \$1,000 expense money. Now, he will need P12,500 to get the same amount of \$1,000.

Reports from Mexico point out that "business in general has been greatly affected and prices are rising rapidly to meet the devaluation level, but the real and substantial effects are yet to be known."

Persistent foreign trade deficits were given as the reason for the government's recent devaluation measure. According to an official announcement from Mexico City, the action was intended to:

- (1) Reduce the importation of non-essential articles.
- (2) Increase exports.
- (3) Ease the difficult situation experienced in some phases of the nation's economic activity.
- (4) Discourage the export of capital.
- (5) Promote greater private investment.
- (6) Increase revenue from "invisible" sources such as tourism.

How valid are the Mexican objectives? If imports exceed exports, why not raise the tariff on the products concerned that derive revenue at the same time? Tariff duties and currency devaluation measures are both price raising devices adverse to local consumers. But while the former produces revenue for the government, the latter does not, in fact, it destroys national wealth—a loss which poor and underdeveloped nations can ill-afford.

Any increase in the exports of an underdeveloped country is largely in the form of raw materials—produced and handled by only a small portion of its labor force. The ability of the people to benefit from economic prosperity from this source is therefore limited. Besides, dependence upon exports is habit forming, for if the country can readily export its raw materials, the law of inertia might make it difficult to industrialize and diversify the economy.

"The difficult situation experienced in some phases of the nation's economy" is a mild understatement of Mexico's basic problem—the country's underdeveloped status. Fundamentally the country, like her counterparts of similar institutional background and heritage, is dismally retarded. It is a smiling land of incompatibilities, siestas, fiestas and holidays. The nation undoubtedly desires modernity and economic progress, but the past holds her back. Mexico has indeed failed to benefit from her great neighbor in the north, except in tourist business. Her failure to industrialize and produce her own needs make the nation dependent on imports, and an ever increasing labor force denied of employment opportunities.

Mexican officials believe that devaluation will discourage the export of capital. On the contrary, any capital left undestroyed is likely to be scared out of the country

by the next devaluation. Likewise, will devaluation promote greater investment? Not in a country that is chronically indigested and devaluation conscious. If Mexico hopes to entice foreign capital this way, she has only to re-examine her past. The Mexican government expropriated properties and nationalized American business interests during the reform movement in the early 1930's.

The attempt to increase revenue from tourism through devaluation is of doubtful validity. Mexico has always enjoyed a large tourist business, mostly, from the United States, even in the absence of devaluation. Good roads connect the United States and the eternal spring of Mexico City; besides, Mexican customs officials are not as bureaucratic and red tape minded as officials in some Asian countries. But there is easily a limit to the elasticity of tourist business, especially, if visitors find the country in the midst of a runaway inflation, as dispatches from Mexico now point out.

At any rate, the Mexican experience forces the conclusion that the "yardstick" has continuously been shortened to stretch a progressively decreasing supply, and that the habit is causing the supply to decrease faster than the yardstick can be shortened.

Some historical and geographical facts in which Mexico and the Philippines are similar. There are three conditions serving as the root causes of economic backwardness and chronic trade imbalances in the two countries. What is unfortunate is that they apply devaluation as a laxative to ease the increasing pains of indigestion (disequilibrium)—failing or refusing to recognize the real cause of the malady, which is economic retardation. These are:

1. Both countries are underdeveloped, with the exception that Mexico is many times larger in area than the Philippines, more balanced in resources, has greater abundance of manufactured products, and, of course, Mexico's proximity to the United States gives her advantage in cheaper freight rates and greater flow of tourist business.

2. Both countries are predominantly Catholic and have had long periods of Spanish tutelage. Some clues to their inherent economic problems may be traced to these historical facts. Nations of such historical background do not seem to adjust easily to scientific attitudes, which may have materially accounted for their economic retardation; they have difficulties solving the problems of production. In fact none of them has ever attained the industrial greatness of modern nations.

3. For these reasons, both are importing nations. This is one of the chief characteristics of underdeveloped countries that have been exposed to the demonstration effects of advanced cultures, i.e., these people develop insatiable appetites for modern goods faster than they learn how to produce or to earn the purchasing power required to pay for them.

Are the conditions which existed in Mexico prior to the devaluation similar to present conditions in the Philippines? While both countries have had balance of payment difficulties, Mexico had them longer. In fact trade imbalance has become chronic to her. The Philippines encountered this problem only after World War II. The reasons were that (1) export industries were slow in recovering and failing to expand *pari passu* with the rapidly increasing population and, also, (2) the fact that the money supply more than doubled in volume from its pre-war level. The result was a tremendous boost in imports with consequent trade deficits in the postwar years which were too obvious. There is the similarity but, whereas Mexico applied devaluation in her case, as she had done three times previously, we applied import and exchange controls in ours. We need not now pass detailed judgment on the merits of each. However, economic theory is clear on the point:

devaluation of the currency is inappropriate to underdeveloped countries and, even to a well-developed country, the benefit of devaluation is only temporary in nature. Deviations from these norms can only be made at the risk of the offenders. Underdevelopment is an economic sin which no currency devaluation can cure. In fact devaluation is another sin, and no sin can remedy another sin.

Besides, does the Philippines have trouble exporting her products? Are these products piling up unsold? Overproduction does not appear to be the case. The Philippines is even buying Cuban sugar to fill up her quota in the United States. Then, why the anxiety in several quarters to reduce export prices by devaluation—only to cause import and local prices to rise further—to the loss of national wealth and permanent harm to the poor and to the nation?

Do these conditions warrant the devaluation of the Philippine peso? Our position on devaluation should now be clear: the Philippine problem of adverse balance of payments does not contain the workable and compelling symptoms that require devaluation as a weapon of last resort. Besides, the country is underdeveloped, and because of this, it is beyond her capacity to take advantage of the benefits that may be derived from devaluation. The ability of an agricultural economy like ours to increase its exports (largely raw materials) is limited, indeed. Besides, even if we assume that the supply and the demand for raw material exports of an underdeveloped (agricultural) country are elastic, the ability to distribute or spread the benefits derived therefrom is inelastic. Translated into simple language, any prosperity arising from increased exports of non-manufactured products (raw materials) tends to be limited to the rich: the rich get richer and the poor poorer.

This is necessarily true, because of the limited employment opportunities among the raw materials producing industries. In this case the greater portion of the labor force remains residually unemployed. The absence of large-scale manufacturing in the country compels the people to depend upon imports for the most part of their needs. In the Philippines, approximately 80 per cent of our needs are imported. Herein lies the basic cause of trade imbalance. Reduce imports through control measures and prices will increase. High prices operate to transfer wealth quickly from the poor to the rich. Again, the rich get richer, the poor poorer. This, too, has some of the elements of devaluation, though in a less drastic form.

It is clear, then, that devaluation—direct, selective, or otherwise, is not our remedy; and it is foolhardy, even to contemplate it. For a nation that imports 80 per cent of its needs in finished goods of high value while it exports raw materials of low value, to devalue its currency would certainly be catastrophic. The expected or apparent benefits in increased exports will be more than nullified by the adverse results in tremendously increased prices—hindering not only the economic development program, but also hurting the masses of poor consumers. Already, even in the absence of devaluation, Philippine prices are among the highest in the world, and it is common knowledge that everytime the price level increases, further, criminality increases with it.

By force of habit, economic, and political circumstances, our exports have tended to concentrate in the American market. That market, although it is the greatest single market in the world—even at its best during prosperity periods, does not always possess unlimited ability to absorb our raw material exports. We may have to diversify our markets by securing barter agreements with other countries, and thereby reduce our reliance upon only one market. This would call for a different type of Philippine consular and trade official abroad. We must have trained trade promoters who have a natural business acumen and who have

been trained for this specialized type of work. In this attempt to diversify the markets for our export products into as many countries as possible, trade is not likely to develop unless we buy from them. It is well to remember that foreign trade is a two-way traffic, especially, under the present condition of exchange inconvertibilities.

Results if the Philippine Peso is Devalued

The Philippines is a member of the International Monetary Fund. If our exchange rate is overvalued and self-help had failed to restore the disequilibrium in our balance of payments, we have recourse to our quota in the financial resources of the Fund. Assuming that this action, likewise, failed, and having had prior due cognizance and fulfillment of the requirements of Section 49, Republic Act 265, relative to official changes in the par value of the peso, we then seek the permission of the Fund to devalue the peso. If the contemplated reduction is only up to 10 per cent of its value, a reasonable defense or justification of the action is all that is necessary; we are free to devalue without concurrence of the Fund. But, if the reduction is over 10 per cent—e.g., 50 per cent (P3 to \$1), the consent of the Fund will have to be obtained.

The adjustment of the exchange rate to this new ratio will automatically increase prices which local importers will have to pay for imported goods. Assuming that taxes and other charges remain unchanged, the prices which Philippine consumers will pay for their needs consequently increase by more than the increase in the new exchange rate, i.e., local prices will increase by more than one peso—the premium over the devaluation rate being due and in accordance with the relative decrease in imports (supply) arising from the higher price or exchange rate in terms of the peso. In other words, where local consumers paid P.40 for a large can of carnation milk before devaluation, they will be paying P.55 or more, for the same commodity after devaluation. The lower prices or exchange rate which foreign buyers will pay for our products, however, will encourage them to increase their purchases of Philippine products. We are assuming here, that the expected effects of devaluation materialize, and that we have the capacity to increase the production of export products.

Thus, the higher prices we have to pay for imports will operate to decrease our demands for foreign goods, and a consequent decrease of our imports. On the other hand, the lower prices which foreigners will pay for our products will operate to stimulate their demands for Philippine products, and a consequent increase of our exports; and if the devaluation rate was gauged correctly, the equilibrium between the values of imports and exports will be restored and the imbalance liquidated. But this is not likely to take place in an underdeveloped economy like the Philippines where the demand for imports is inelastic.

However, even if this ideal objective is achieved, it is only temporary, and while it benefits a few, it harms the whole mass of consumers, especially, the fixed and low income groups. To an industrial nation that produces and manufactures the greater part of its needs, devaluation of the currency may not be too adverse to the people. But, to an agricultural country that is largely dependent in finished product imports for the greater part of its needs, the damaging effects of devaluation in increased costs of living are irreparable. The inability of an underdeveloped economy to recover from values lost in devaluation is due to the absence of a balanced capitalistic or manufacturing industrial setup, where as many productive factors as possible, especially, labor can participate in the expansion of production. In other words, an underdeveloped economy lacks the multiplying effects of increased production, and therefore, unable to expand and distribute the benefits that

may be derived from monetary devaluation. Devaluation here would be like saving the nose by cutting the throat. It is simply suicidal for an importing country to devalue its currency because the harm that devaluation will bring to such a country is in direct proportion to the degree it is dependent on imports.

If a devaluation of P4 to \$1 is adopted in place of the present P2 to \$1 ratio, the exporters and other people receiving dollars will get P4 instead of P2, thereby doubling the money in circulation. This is inflationary since the money supply has increased but the goods have not. Prices will rise accordingly, and since imports will now double in cost, and if imports decrease, prices will rise further, to the great harm and disadvantage to the poor and fixed income groups. Rice that sold for one peso would then have to be sold for two pesos, because the rice producers would have to pay more for the things they need to produce rice. Pension receivers will still receive the same number of pesos but the quantity of goods they will be able to purchase will be reduced in half; in effect, devaluation would reduce pensions in half. If a laborer made four pesos a day, he would ask to have his wage increased to eight, because of the increased cost of living. There will be agitation to increase pensions and wages, and if granted, prices will rise further and the inflationary spiral will have a deteriorating effect upon the economy. Savers, depositors, and buyers of insurance will suffer as well, and serves to discourage such virtues.

The Ultimate Remedy

Ultimately, the underdeveloped condition of the economy must be changed by positive action. While the short-run objective of economic development is to increase production, the long-run goal should be the solution of the problem of production. This economic development of a sufficiently capitalistic nature i.e., the establishment of key industries capable of generating self-multiplying and diversifying effects for balanced growth and expansion which, when achieved will not only provide adequate employment opportunities for the ever-increasing labor force and local raw materials, but also turn out goods that will absorb the incomes and purchasing power consequently generated. But before this can occur, there must take place some fundamental changes and adjustments in our national policies, attitudes, and characteristics, as pre-conditions to economic progress. There must be not only united action and national discipline, but also a higher level of intellectual competence and godliness.

As the Philippine economy is now set-up, it is even difficult to increase production to an appreciable degree, because of its underdeveloped condition. The establishment of any organized production requires the importation of dollar-using capital goods as well as raw materials. The scarcity of dollars, the red tape, time, and efforts involved, are in themselves enormously discouraging factors, costly to the businessman. Besides, there is always the deadly uncertainty that what the businessman can obtain now, he may not continue to get in the future. Then, too, consider the high cost of production because of these conditions, made higher by the minimum wage law and other cost-raising factors. How much more after devaluation!

Compare these difficulties with the ease with which a businessman in England, Japan, or United States can go into business. His needs are procurable within the confines of his country, if not in his immediate vicinity, owing to the developed nature of his country. This is the condition we have to approximate, and soon. This is the ultimate goal of economic development.

In the meantime, the Philippine peso should not be disturbed. Its stability has been a source of no small na-

PROBLEMS OF VIETNAM

October last year, President Ngo Dinh Diem, Chief of State by reason of a popular referendum, proclaimed the birth of the Republic of Vietnam to the Vietnamese people and to the world at large. A new republic to which international factors and geographical location give a historical role of the first order had entered the society of nations. Situated on the fringe of the Free World, the Vietnamese people have written a new page of history in its own blood and tears to defend and preserve its freedom. It waged this struggle not for its own sake alone but also for the civilized world. It has not been easy for the people to defend itself both against hostile forces on the frontiers and inside the frontiers and also to carry out a revolution in the direction of democracy.

The situation in 1955 was far from comforting. The Geneva Agreements had divided the country into two, yielding the northern half and its 12 million souls to a reign of oppression. The ensuing southward exodus of nearly one million people presented a multitude of problems for the Government of Free Vietnam in addition to an infinity of other tasks which were overwhelming in their immediacy.

As yet Vietnam had not been given the responsibilities of a sovereign state in scarcely any domain. Gambling, prostitution and corruption—protected by a number of feu-

tional pride. Leave it as it is—pegged two to one to the American dollar. Disturb it now, and the door to a concatenation of undesirable spiralling events will have been opened—to the regret and permanent harm to the nation.

Concluding Comments

The contention of the advocates of devaluation that the current relationship between the peso and the dollar benefits the importers more than the exporters, is not without merit. The claim, however, lies in the fact that the importers convert their pesos into dollars to pay for imports at the official exchange rate of two to one (P2:\$1), sell the dollars so acquired at three to one (P3:\$1), or use them to import goods that are sold in the local market at high prices—prices that are high because of the relative scarcities of goods; and goods are scarce because dollars are scarce. Dollars are scarce because we import more than we export, a situation that is due to either or both of two mutually exclusive conditions—the low local production and the tremendous appetite for imported goods.

Complicating and abetting this paradoxical situation, of course, is the fact that ours, being an underdeveloped or colonial economy exports raw materials of low value and imports finished products of high value, the sine qua non of deteriorating adverse balance of payments. This is essentially a vicious fundamental problem of all underdeveloped countries that have become exposed to the demonstration effects of the more advanced cultures of progressive nations, a problem which no amount of devaluation can solve. Again, and still, the solution lies in economic development—of the nature that will solve the problem of production, so that local raw materials can be processed and manufactured into finished products, reducing our need for dollars. With less demand for dollars, the premium now being paid for it will disappear, and so does its black market. The consequent fall in the free (black) market rate of the dollar to the peso will operate to improve and thereby restore equilibrium between the free market and the official rates (of the peso to the dollar). Only then is the problem of trade imbalance solved, and only then can controls be removed for good.

dalistic groups which defied established laws—were rampant both in the towns and in the rural areas. Also, eight long years of war had had grievous and disastrous consequences. Entire regions had been devastated; all means of communication had been paralyzed; owing to the activities of rebel bands, insecurity reigned throughout the countryside. Faced with this catastrophic situation, this chaos, the Vietnamese people won over adversity by dint of realistic foresight, self-control, and a unity which has been as genuine as it has been profound. Under the leadership of the patriot Ngo Dinh Diem the Government succeeded in directing the unanimous will of its citizens in a long and strenuous undertaking, namely, the nation's resurrection.

The immediate task was to recover sovereignty and the people's right of self-determination. Along with this, the Republic of Vietnam has thus far been recognized by more than 40 nations. On the domestic level, the Army, which had been unified and purged of all elements which have been false to the people, was successful in crushing all rebel bands which had sought to maintain their feudal privileges. For the first time in its history, the people of Vietnam have been called out to express, by a universal, secret and direct vote, its choice of those who should represent it at a Constituent National Assembly. These authorized representatives of the people, elected early this year, have finished their task, with the result that the Vietnamese now have their first democratic constitution.

As part of the creation of a democracy, various social and economic reforms—agrarian reforms, the raising of wages, the closing down of gambling houses and opium dens, and the wiping out of prostitution—have been undertaken with a view to improve the living standard of the masses and the morals of society as a whole. Nine-tenths of the refugees from the north have been able to start a new life as free men thanks to resettlement plans carried out by the Government. The recultivation of lands which had been forsaken, fostered by the construction of new dams and the introduction of modern rural facilities and equipment, has been of material help in raising the country's agricultural production and in improving living conditions among the peasantry.

In commerce and industry the opening of a National Bank, a National Exchange Office, a National Investment Fund, a Chamber of Commerce and many co-operatives has been the first step toward protecting and developing the nation's finances and economy. In the field of justice, new institutions befitting a modern state such as a Supreme Court of Appeal and a Council of State have been set up.

In education, the creation of new University of Vietnam marks the orientation of education and culture, in which the national character always figures prominently.

These, in outline, are the initial results achieved by the new Republic. Through these concrete facts the world has glimpsed the blossoming in all domains of a new spirit, the spirit of revolution, of a new method, the democratic way, and of a new resolve, the determination never to be dominated by anyone again.

Considerable though these results may be, much remains to be done. The ground which has already been covered under particularly difficult conditions is one guarantee of future success.

Vietnam has the United States as friend and protector. Under this protection the fear of attack by the communists has been banned. Vietnam also has the sympathy and support of Asian neighbours with the exception of the com-

THAI TRADE POLICY

By V. Nivatvongs

When Thailand announced its decision on September 14, 1955 to relax its all out import controls which were put into effect since November 1953, it gave the impression to most laymen that the number of item of goods under import restrictions would become fewer and fewer as time went on. However, the present outlook does not seem to warrant such an expectation for freer trade, as there already are about ten items of goods which will come under this list in the near future. The main reason for the Government to increase the items of goods in its list of import restrictions is due to the fact that protection of such goods from foreign competition is necessary for the promotion of domestic producers. These additional items of goods which the Government deems it necessary to protect from foreign competition are in order of its enforcement as follows:—

Type of products	Date of enforcement
1. Paper umbrella	November 25, 1955
2. Gunny bag	March 19, 1956
3. Potatoes	" 29, 1956
4. Canvas shoe	June 13, 1956
5. Pepper	" 22, 1956
6. Enamelware	July 4, 1956
7. Edible bird nest	" 9, 1956
8. Rubber sole and heel	August 7, 1956
9. Knitted fabric	" 10, 1956
10. Grey cotton shirting and Poplin	" 11, 1956

munist dominated states. Peking remains Saigon's adversary. The people of Vietnam, like the people in other parts of Southeast Asia, are looking with utmost suspicion at Peking, and know that they have to be prepared to meet the Communist Chinese enemy.

There are many overseas Chinese in Vietnam (mainly concentrated in one district around the capital) and their loyalty is doubted. Though the majority of these Chinese profess to support the Nationalist Government of Taiwan, there may be many low-lying pro-communists. Apart from the political danger which is inherent in a concentrated group of overseas Chinese, there are also economic and cultural considerations which compel Vietnam to seek speedy means to solve the problem of overseas Chinese. With the revolutionary fervour of the Vietnamese people now so successfully displayed, there cannot be any doubt that the question of overseas Chinese in Vietnam will soon be resolved in a manner satisfactory to the interests of the new nation.

The recent Government control of knitted fabric has been criticized by some newspapers that such a measure taken by the Government would do harm for it would raise not only the price of knitted fabric but also the prices of clothes made with such fabric. Many people both Thai and foreigners firmly believe that the trade policy followed by the Government is absolutely a protectionist policy. However, the general public support the Government for approving the promotion of domestic industry. The writer has yet to see a country that does not more or less practice a protectionist trade policy.

Protection of domestic industry from foreign competition by restricting or banning the flow of goods from other countries is the easiest way to get immediate result, nevertheless, it may sometimes produce undesirable outcome. Since Thailand has a population of about 20 million, its domestic market could be considered very limited for many products. Once the Government decided to promote certain industry by banning imports, it can be easily seen that only one company or one major company in the industry will exist, for if there is more than one company in the industry, overproduction could be the result in so backward a country as Thailand. In the end if not the beginning a monopolistic industry is thus created. A question may be raised as to whether the excess products could be exported. The answer may as well be in the negative, for if such excess products could find their outlets in foreign countries then such an industry will not need Government protection in the first place or even if it does it will need Government protection only during its infant stage, and that should be a very short period of time. Moreover, protection of such an industry will not take the form of rigid trade restriction but it can take the form of Government subsidy or higher tariff for imported goods. In other words an industry in which Thailand has a comparative advantage will be most satisfactorily promoted by way of inducement rather than direction.

There are at present a few domestic industries which are unable to produce at full capacity because of the limited domestic market. Sooner or later they are bound to clamor for protection. Should the Government decide to protect these industries by banning imports, they will enjoy such a protection only in the short run, but in the long run they will again face the problem of limited market at home, as industrial production necessitates mass production. The situation is bound to assert itself and finally monopolistic industries will exist.

HIRE-PURCHASE IN HONGKONG

By Ricardo

It is a good policy to buy a motor car or a sewing machine with cash. It is equally sound to procure these articles by hire-purchase payments. The question is, "Can you afford it?" A person earning \$1,500 a month may not have the cash for a 1957 Cadillac but he can afford to buy a \$5,000 used car by arranging hire-purchase payments with the dealer. An office clerk with a monthly take-home wage

of \$250 will never be able to save enough for a sewing machine which his wife needs badly for making children's garments and for earning extra income; by H-P payments he can get the machine right away. H-P has therefore brought more business to retailers and helped many people to enjoy better living than when everything had to be bought with cash.

Even before the last war, hire-purchase facilities were offered by car and sewing machine dealers but it was only during last year that a considerable volume of business was developed through H-P sales. Dealers in air conditioning units, refrigerators and other electric appliances also started to offer their commodities on H-P terms. But on the whole, H-P sales have been satisfactory only in the marketing of motor cars and sewing machines.

Automobile Sales: Before 1953, taxi companies usually bought automobiles on hire-purchase terms. The rich paid cash for their limousine and only few wage earners took advantage of the H-P offers. Today, hire-purchase sales make up about 85% of the local car trade. While general business conditions deteriorated here after the 1951 boom, sales of automobiles to private owners registered a steady increase during the past four years. Dealers guard their sales records like military secrets but the number of cars sold to local owners every year could be roughly estimated from the number of private cars on the roads in HK and Kowloon. At the end of 1951, there were only 9,764 private cars here; the number increased to 18,703 by the end of August 1956 representing an increase of almost 100%. The actual number of cars sold during the period, however, is far more than 9,000 taking into consideration all the old cars which are no longer in use. The increase in the number of cars in use averaged 1,000 cars every year from 1951 to 1954 but last year, the number increased by 2,300 from 14,500 (December 1954) to 16,802 (December 1955). During the first 8 months this year there was another increase of 1,900 cars. The higher rate of increase since 1954 was the result of renewed hire-purchase sales campaign. The outcome was so successful that the HK and Shanghai Banking Corporation started a new department to finance H-P sales for several leading automobile dealers. The success of H-P sales in motorcar trade can be attributed to following factors.

New Owner-Classes: People who are earning over \$1,500 a month especially upper class government employees and senior staff members of big firms constitute a large percentage of H-P buyers. These people may find it difficult to save enough cash for a car and will not consider to purchase one if there are no H-P offers. They are good risks because most of them are financially able and socially secured. Another new group of buyers are owners of restaurants, stores, laundry shops and even proprietors of small firms who need all their cash to run the business and cannot afford to sink a lump sum in a vehicle even though it is a necessity for their business. H-P facilities enable them to buy transportation without upsetting their budget too much. These customers are usually able to meet their monthly bills regularly.

Bad payers are those who stretch the budget too much, or those who plunge into H-P commitments without knowing how they are going to meet the bill next month. A specimen of such buyers is the black market taxi operator who runs his 'private car' as a taxi without the ordinary red or green licence plate issued by Govt. for taxis. The Chinese name for such cars is "Bak-P'ai" (white licence) because they have the ordinary white licences for private cars. The Police do their best to stamp out such illegal hiring business but it is very difficult to put an end to it because there appears to be a shortage of taxi-cabs particularly on the Kowloon peninsula. The owner-driver usually rounds up enough cash, by borrowing and other means, for the down-payment. If, on account of one reason or another (caught by the police, etc.), he is not able to earn enough for the next payment, the car dealer has a 'bad-account' on his hand. There are also buyers who can not afford the car even by H-P payments, but buy the car

nevertheless just to show off or to put up a false front for their misdeeds.

High Second-Hand Sales Value: H-P has actually boosted the prices for second-hand cars because about 50% of H-P buyers start with the purchase of a used car and after the payments are all cleared, trade-in the car as the down payment for a new car. Many thrifty owners prefer to buy used cars because they figure that the depreciation on a new car right after the wheels have touched the road is about 20% while that on a used car averages \$1,000 per year. Furthermore, licence fee on the used car has already been paid by the previous owner and all accessories such as radio do not count in the value of the car. Very few buyers, however, have enough knowledge about engine and body to detect any fault during a road test. Motor car dealers therefore have no trouble to get rid of a used-car at a profit; in many cases the dealer handles the buying and selling of the same car many times earning a percentage on each transaction. There is also a very good export market for used cars. Many local garages buy old cars or new ones after an accident and export them after repairing. The high second-hand value of used cars is a very important factor which enables dealers to expand H-P sales to 85% of their business volume, and bankers are interested to take over H-P accounts from leading dealers.

Protection against Bad-Payers: The high second-hand value also enables dealers to settle a bad account by repossessing before the car depreciates below the amount already collected from the hirer. This is possible because HIRE-purchase contracts specify that the user is only a HIRER and he becomes the owner only after he has paid the total value of the car. Before he becomes the owner, all the bills he has paid on the car are legally considered only as fees for hiring. The dealer, who is the owner, can repossess the car if the hirer stops paying. The dealer suffers a total loss only if the car is smuggled out of HK by the hirer who also disappears and if the insurance does not cover such a loss. This, however, has not yet happened in HK. Even cases of repossession are few because the purchaser can always sell the car at a loss to someone who will take over the account instead of losing the whole amount which he has already paid to the dealer. Hire-purchase has therefore become the life-blood to the local automobile trade.

Sewing Machines: Hire-purchase sales of sewing machines have been very successful mainly because the monthly payments are usually very low ranging from \$8 to \$30. The down payment is only 20% of the total value of the machine. It is therefore within the means of the majority of the working class. In the case of a bad account, which is rare, the guarantor is responsible for the payment or the return of the machine which has a very high second-hand value.

The manufacturer of one famous brand sewing machine actually started hire-purchase sales in Europe 50 years ago but in HK this firm conducted business chiefly on cash basis before 1955. Last year the firm launched a H-P sales campaign after retailers handling Japanese, Chinese and local sewing machines had offered hire-purchase facilities to buyers particularly of the lower income groups. The company now has over 6,000 H-P accounts.

Many families are benefited by H-P offers because a sewing machine increases their earning power. If the take-home pay of the husband is not enough to meet the expenses, the wife can earn a few dollars every day by sewing with the help of the machine. Almost every tailor shop (there are thousands such shops all over the Colony) now has at least one sewing machine and tailors are charging extra rates for hand-sewn garments. With the help of

sewing schools many housewives buy their own machines after they have learned the simple technique; hire-purchase offers enable them to get the machine almost 'free' by squeezing \$20 out of the monthly budget.

Refrigerators and Air Conditioners: Unlike automobiles and sewing machines, dealers in electric appliances—especially in refrigerators and air conditioners—discourage hire-purchase sales whenever they can. Over 80% of the business is done in cash and a 10% discount is allowed on cash payments to encourage C.O.D. transactions. The reason is mainly financial because H-P sales require extra capital to take care of the credit granted to consumers. Most local agents for American, British and European refrigerators, air conditioners and other appliances have neither the financial ability nor the experience to handle hire-purchase accounts. The financial problem is particularly serious when foreign exchange rates fluctuate. One dealer confides that he will be very happy if, by the time when he has collected every cent on the ten refrigerators sold last month on H-P terms, he is still able to cover the cost of 10 new units with the amount collected because by that time the exchange rate for US dollars might be higher than the current rate.

There is also the difficulty of keeping an eye on every appliance sold under H-P terms. Unlike automobiles which can easily be repossessed and sewing machines which cost comparatively little, electric appliances can easily be sold or shipped out by the hirer without much difficulty. The company can claim the loss from the guarantor but legal procedures are costly and time-consuming. Furthermore, the second-hand value of refrigerators and air conditioners is very low especially when the warm season is over. The agents for one brand of air conditioning units and refrigerators suggested that insurance companies should accept fidelity insurance on hire-purchase clients. All agents agree, however, that H-P facilities have increased the volume of sales and that if above difficulties could be solved and H-P sales further developed, business would be much better. The results of H-P sales, though still restricted, are already apparent; had there been no H-P offers, there could not have been so many air-conditioned restaurants, beauty parlours and night clubs in the Colony and most white-collar workers would not be able to own a refrigerator.

Other Consumer Goods: Long before the last war, small tailor shops let 'old customers' have their new suits first and collect the money at the end of month. If the bill is too big for the customer to pay in one month, collections are made in several instalments at the end of each month. This facility is still offered by most tailor shops here; they do not have any specific system but they offer it only to those 'old customers' whom they know well. There are no contracts for such transactions. Everything is done on good faith; the customer is a friend, not a hire-purchaser. Similar facilities are offered by furniture shops, interior decorators and even restaurants to their friends and friends' friends especially when the 'friend' is getting married or is starting a new business. Everyone is happy if the account is settled in time but once in a while a bad-account involves many parties in addition to the creditor and the debtor. Shopkeepers are now restricting such primitive H-P facility to only a very few customers on account of the increasing number of bad accounts during the past year.

New Buildings: Only official and semi-official housing associations are now selling new flats on credit terms to their members. There are not yet any new flats offered for sale on H-P terms by private investment companies or landlords. Instalment payments can be arranged for the purchase of flats which are under construction or are still in the blue-print stage. Investment companies accept in-

stalment payments only because they do not have enough cash for the development and their term is usually 50% down. As soon as the building is completed or is nearing completion, instalment payments will not be accepted. The paradox is that if the monthly hire-purchase payment is too high, say over \$1,000, the flat will be still beyond the reach of the middle class; but if the amount is about \$700, the landlord would rather consider it as a monthly rental than to take it as a part of the total payment for the sale of the house. However, if a bank or any one of the many civic associations here would buy over new buildings from contractors and offer these new flats to the general public on H-P terms, thousands of vacant flats could be immediately occupied and building development further stimulated. Take for instance a \$50,000 flat, the bank or the association could easily get the money back within five years with interest (not a profit) by requiring the prospective hire-purchaser to pay a small down-payment and a monthly amount of \$700.

Yardsticks for Debt Capacity: It is true that the majority of the local population earn hardly enough money to support their families and they do not have the extra money for refrigerators, electric fans, new suits, and certainly not for new flats even by H-P payments. However, it is equally true that H-P facilities do increase the sales of consumer goods and do help many, if not the majority of, white-collar workers to improve their living standard. Furthermore, consumer debt capacity in HK should not be judged by Western standards. In US and UK, professional credit men have developed 3 yardsticks to assess one's debt capacity (ratios of total debt to annual income that are normally considered safe): a) the total amount should not exceed 20% of annual income; b) total debt should not be more than the amount which can be paid off with 10% of one's income within 12 to 24 months; c) total debt should not exceed 1/3 of the amount which one has left after deducting the annual expenditure on food, clothing and shelter.

The situation here is different. A clerk earning \$300 per month may be badly in need of a small refrigerator to keep the milk fresh for his new-born and therefore uses \$80 (26.6% of his monthly income) every month to pay for the refrigerator. He is willing to sacrifice his cigarettes, spend less on his meals and cut all other expenses. According to a local dealer, such people are good customers. A couple may choose to live in a single room and save every cent so that they could pay the monthly bill on the second-hand car. The yardstick for one's debt capacity is the amount which one can pay every month for the commodity bought under H-P and not the percentage of one's annual income. Credit habits vary with income, age, job, family size and way of living; but one advice which is good for US and UK consumers is also good for local hire-purchasers: "Use instalment credit chiefly for emergencies, necessities and equipment."

Prospects: So far few banks have interested themselves in H-P business although it would seem there is a ready outlet for investing idle funds. With local purchasing power stagnating and demands on new goods and services rising, partly due to advertising and other stimulants, a way out is, as has been proved in other countries, the adoption of the system of H-P. The local buyer is considered generally as less creditworthy than citizens in other countries, and that consideration, right or wrong, has stifled interest in this line of business on the part of banks as well as conservative financiers. Dealers and retailers want to engage themselves more vigorously in H-P but they are not always provided with sufficient credit facilities from their banks who, it must be admitted, are often sceptical about the prospects of this line of business. It is ironic

HONGKONG NOTES AND REPORTS

Industrial Developments

Export of rattan furniture to the US will slow down with the approach of the slack season. Meanwhile, US importers are promoting next year's business by exhibiting HK rattanware in leading American cities. Competition among local exporters is growing because more firms are handling this line of export while the number of rattan shops here do not show a corresponding increase. Consequently, these rattan shops accept orders only from firms paying the highest prices. On the other hand, US importers are forcing prices down leaving only a very narrow profit to HK exporters. Carved wood furniture is also gaining popularity in the US. An American company is negotiating with a local firm to establish a large workshop here to meet the increasing demand from the U.S. This new workshop will also produce high-quality carved camphor wood chests at prices cheaper than those offered by most shops here.

HK knitwear industry is enjoying steady demand from SE Asia and from markets as far as North Europe and the US. In addition to gloves, HK manufactured underwear, hosiery, swimming suit, sports shirt and children's garments are gaining popularity in these markets. At present there are 245 registered knitting factories in HK employing about 10,000 regular workers.

One local manufacturer is producing building slabs from wood wool under licence from the original patentee according to British standard specifications. Known as the 'Cellocrete', the slab measures 80" x 20" (11.1 square feet). The thickness varies from 5/8" to 3" and 1 cubic foot weighs about 25 lbs as compared with 105 lbs for the same volume of brickwork. Furthermore, two men can lay a wood wool slab in one single operation while it takes a skilled mason and his assistant over 2 hours of uninterrupted work to lay a half brick wall of about the same area. The manufacturer claims that a wall built of three inch wood wool slabs has greater insulating properties than a 36 inch brick wall. It insulates against heat, cold, humidity, and prevents condensation on the interior surfaces of the building.

Public Works

Public works projects completed during July-September this year included the Tsun Wan Government School, resettlement buildings at Li Cheng Uk, Shek Kip Mei and Tai Wan Hill, cattle lairages at Ma Tau Kok, slaughter houses at Kennedy Town, 1,500 feet of seawall at Cheung Sha Wan, drainage works along Castle Peak Road in Tsun Wan, and a water supply system at Ping Chau in Mirs Bay. New projects in progress include site formation for the Castle Peak Hospital, the staff quarters attached to Western Police Station, alternations to Yaumati Police Station, the Public Works Offices and Depot in Kowloon and a new market at San Hui in the New Territories. New works planned include a primary school in Fuk Wing Street, a multi-storey car park on the new Star Ferry concourse, the

that idle funds are so plentifully available and seem to be ever on the increase, and at the same time credit for purchases of consumer goods of all varieties is so reluctant and usually needs much coaxing. Still, it is hoped that for the sake of stimulating the economy there will be in the near future more incentive on the part of financial institutions to enlarge the scope of H-P. Selection of prudent and careful dealers and retailers will be essential as far as banks are concerned. The general public will have, when applying for H-P contracts with their retailers, to be sifted so as to ensure that bad debts will eventually amount to only a small percentage of the total H-P contracts.

new Kowloon General Hospital, the Kowloon Technical College, a polyclinic at Shek Kip Mei and the new City Hall. Construction of the seawall about 340 feet long at Kennedy Town will start in December and the work will be completed in six months; the seawall will retain 11 acres of reclaimed land for development purposes.

Consumption of Sand

During the 12 months from April 1955 to March 1956, sales of sand by Government Sand Monopoly totalled 569,833 cubic yards producing a revenue of \$4.8 million. This all-time record reflects the intense building activity in HK and Kowloon during the year.

New Buildings

A 10-storey building will be built on the site between the Broadway Theatre and Ritz Theatre on Nathan Road. The \$6 million project to be completed next year will be known as the Sing Kui Building. The shareholders are all overseas Chinese from San Francisco. The building will house shops on the ground floor, offices, restaurants and hotel accommodations from 1st to 8th floors, a night club on the 9th floor and a garden on top. The entire building will be air conditioned and served by 5 lifts.

Government has published a layout plan of the new town at Kun Tong showing housing provision in three main zones. The plan however is not final. The sites in the proposed commercial centre will be available for sale by the middle of next year but applications are now accepted. Factory sites totalling 59 acres will be available in the first two stages of the reclamation. Several lots have already been sold and the remainder will be disposed of before end of 1957. A further 52 acres of factory sites will be reclaimed in the third stage.

In the North Point, Causeway Bay, Happy Valley, Jardine's Lookout, Stanley Island, Aberdeen, Deep Water Bay, Repulse Bay areas—to mention only a few on Hong-kong island—considerable and even pompous building developments are under way. Residential building, some of it being of the luxurious and ostentatious type, is proceeding at speed. The one family villa is no longer the representative form of private construction for the economically over-privileged but tall (up to 10 storeys) apartment blocks are being erected with expensive fittings and all the architectural frills of the Wright and Le Corbusier copyists. Rich but irritating color schemes adorn the walls, and white is no longer favored; pink being apparently now violently en vogue.

Registration of Persons

During the period April 1955-March 1956, 118,749 identity cards were issued by Government. Of these, 74,573 were to new arrivals who were natives of Kwangtung. New arrivals originating from other provinces who held HK Entry Permits numbered 6,180. Among the total of 2,084,169 cards prepared by Government during the past five years, 108,483 were not issued because persons concerned were "absent" and 93,676 cards were cancelled on account of deaths, deportations, departures and other causes leaving 1,882,010 cards in validity at the end of March 1956.

Colleges and Schools

The Administration Office building and class-room blocks of Chung Chi College at Ma Liu Shui in the New Territories were completed last month. The 10-acre site on the hills overlooking Tolo Harbour was granted by Government in 1953 and a new railway station was recently constructed at Govt. expense adjacent to the campus. The cost of erecting the basic buildings was partly financed by the United Board for Christian Colleges in China with the help of the Asia Christian Colleges Association of London. Additional con-

struction projects include an auditorium with a seating capacity of 800/1,000, several faculty residences and student dormitories, a gymnasium and athletic field and more science laboratories. The completion of these projects however depends upon contributions from the US, Canada and UK and from local groups and individuals. The Evangelical and Reformed Board has promised a substantial sum for a student dormitory. Construction of the new Technical College on the Hung Hom reclamation in Kowloon will begin early next year and the first phase providing accommodation for about 1,200 students will be completed by the end of October 1957. When all stages of the construction work are completed, the new Technical College will accommodate a total of about 3,500 students.

During the quarter ended September 30, two new Govt. primary schools with accommodation for 2,880 pupils were opened—one on Perth Street and the other in Tsun Wan. Five new subsidized primary schools and five extensions to subsidized primary schools were also completed providing accommodation for 1,905 pupils. Three private school buildings and ten extensions to existing schools were completed providing places for 5,108 primary school pupils, 1,542 secondary school pupils and 389 post-secondary school students. Nineteen new private schools were opened during the period while eleven schools closed down as a result of financial difficulties. The Rotary Club of HK Island East will build a \$200,000 school building for the Victoria Park School for the Deaf on Hing Fat Street in Causeway Bay overlooking Victoria Park.

It must be conceded that the public is anything but miserly about providing for the education of our precious youth. Our Govt. is spending great amounts for school buildings and thus hopes to be favoured with more generous comment from Chinese parents and also from the local civic-conscious clubs and discussion groups. For adults, less money is being spent and for the old and aged people perhaps the smallest pittance.

Imports of Rice, Frozen Meat & Coal

Imports of edible rice in October totalled 16,983 metric tons giving a total of 235,297 tons for the first ten months this year:

Imports from	October	Total (Jan.-Oct.)
Thailand	14,733	151,284
China	1,793	41,718
Burma	357	22,325
Pakistan	—	9,620
Other Countries	100	350
	<hr/> 16,983	<hr/> 235,297

Consumption during October amounted to 22,483 tons averaging 5,621 tons per week as compared with 4,439 tons in the preceding month and 4,771 tons in October 1955. Bangkok reduced the export premia on a number of grades of rice during the month; the local market however was not affected because the grades concerned were not imported in large quantities. The Kowloon rioting caused a short-lived speculation in mid-October; special arrangements were made by Government during the period to ensure supplies to the affected areas. The market returned to normal towards month-end.

The consumption of frozen meat in October totalled 495 tons as compared with 616 tons for the previous month. This was due to the improved supply of fresh meat from China, Taiwan, Thailand and other sources. Imports of frozen meat totalled 508 tons during the month.

Imports of coal during the month totalled 17,916 tons (11,883 from China, 4,577 from Japan and 1,456 from North Vietnam). Satisfactory level of stock was maintained throughout the month.

Export of Cars to China

During October, 66 cars were exported to China; 2 were of German origin, 1 American and the rest British. Local businessmen who went to Canton reported that some of the cars which Peking had bought recently from Hongkong were used as taxi-cabs in Canton and other leading cities in China.

FINANCE & COMMERCE

HONGKONG PRODUCTS EXHIBITION

Visitors to the 14th Exhibition of Hongkong Products now being held, including buyers from overseas, are able to see a great variety of products manufactured by local factories. There are 628 stalls displaying samples of 45 different lines varying from tiny buttons to large units of machinery, from foodstuff to wearing apparel, from works of art to steel helmets, and from established HK exports such as gloves, cloth, rubber footwear to newly introduced products including a refrigerator, a plastic blowing machine, a number of reflex cameras, various kinds of clocks and many plastic articles. Rediffusion wired-television centre at the Exhibition attracts many visitors who see themselves on the TV screen placed in the stall. The international industrial machinery section this year includes the information booth of Germany. There is a great improvement in the layout of this year's exhibition stalls. The best decorated booth will win the Department of Commerce & Industry Cup which the winner may keep for one year. Unfortunately there is no silver cup for new inventions or for the most popular product.

At the opening of the Exhibition, the Governor of Hongkong said inter alia:—

"Local manufactures sent abroad in the first ten months of this year were worth \$648 m, which is nearly \$50 m more than those exported in the same period last year. This illustrates another increase in industrial production; an increase which we have now come to expect each year. We must not however be complacent. We are now recognised as an industrial centre to be reckoned with in world markets. As such, we have a very important part to play if we are to maintain that reputation. I refer primarily to moral trading principles, and am speaking now to both merchants and manufacturers, and in particular to those members of the community who are prepared to sell these principles in order to pocket a little extra profit. I urge the latter to pause and reflect on the considerable damage they are doing to us all.

Until now we have been able to go from success to success, but world markets for the type of goods we produce are contracting, and competition is becoming keener. It is at this point that a good reputation both with overseas traders and governments alike, will enable us to withstand more readily the difficulties which we may have to face. A satisfied customer is going to repeat his order. A dissatisfied

customer is not. We must not dissatisfy and eventually lose our customers by exporting the wrong sizes, the wrong colours and different qualities from those ordered, and by defaulting on contracts at the last minute in order to take advantage of better offers. Nor must we permit any unscrupulous trader to abuse our certification system. There are some persons who do these things; fortunately however there are not many of them. They probably make a few extra cents, but such a short-sighted and self-centred policy is not, in the long run, going to do the individuals concerned, or the Colony, any good at all, for a bad reputation has much the same effect as a tariff increase in an importing country. We should not handicap ourselves in this way. You should also press on with increasing the efficiency of your factories and by planned programmes of modernisation.

This year we broke new trade fair ground by displaying our products on the Continent of Europe for the first time. We shall undoubtedly go back to the European Continent again in 1957. We have also arranged to participate in the United States World Trade Fair which is being held in New York in April next year. This will introduce our products to buyers in the Eastern United States for the first time. Government is very conscious of the land needs of industry and active and continuous exploration is being made to find other areas suitable for industrial development, particularly the requirements of industries which cannot be accommodated at Kun Tong due mainly to smoke emission and excessive water consumption. The smaller factories, too, are not being forgotten and details of sites for flatted factory development will shortly be published. Our great asset in Hongkong is the skill of our labour, and we should strive to manufacture technically more advanced products."

The Chairman of the Manufacturers Union, Mr. H. Wong, stated: Our industries have undoubtedly benefited under the Imperial Preference system and we appreciate the fact that our products share this preferential treatment together with other Commonwealth countries. We are grateful to the United Kingdom Government for maintaining this system. For our part, we are striving to incorporate in our finished products more raw materials of Empire origin in spite of the fact that the cost of some raw materials is higher from Empire sources.

The recent sales by the Government of industrial lots at Kun Tong shows the fast expansion of local industries and it is significant that all the lots were acquired at prices far in excess of the government upset value. We thank the Government for the special facility of payment for these sites by instalments. We hope that more industrial lots both at Kun Tong and elsewhere will be available.

Regarding the establishment of a new Technical College in Kowloon, we consider it our duty to contribute towards the cost of this project, and have undertaken to donate \$1 million for the creation of the C.M.U. School of Industries. Half of the required sum was handed to Government earlier this year and we are now conducting a campaign to raise the balance.

In recent years, there has been a marked change in HK industries. Not only are our manufacturers consolidating their position in certain lines, but many are stepping into the fields of higher quality and precision articles which have not hitherto been attempted. It is our wish to keep pace with the more industrially advanced countries. With the hereditary Chinese qualities of ingenuity and craftsmanship, we can hold our ground in any market. The success achieved by Hongkong's recent participation at the Frankfurt Fair shows the great value of such activities in Trade Promotion and we are considering to participate in more trade fairs abroad, and in sending delegations to more overseas markets including Indonesia, Thailand, Philippines, Singapore, Malaya, Canada, America and the U.K.

Hongkong industrialists have striven determinedly and untiringly to uphold the community's economy. This has been no easy task since many manufacturers find their activities curbed by the lack of financial backing. If assistance in this form is forthcoming from co-operative financial

sources, it will considerably help the growth of HK industries.

EXHIBITION AND GENERAL PROBLEMS OF MANUFACTURERS

Hongkong's factories are growing in size and ambition; markets are explored and every year successes are scored in finding more overseas customers—though also quite a few are being lost as a result of severe competition and shoddy, improper goods turned out by some manufacturers. Capital is attracted by opportunities in manufacturing but land and construction costs are high. Cheap and plentiful labour, ready to work long hours, is one of the principal assets of the local industry; of equal importance is Empire Preference without which most factories could not go on producing. To keep going and expanding, labour conditions will have to continue as at present and protectionist tendencies in various Commonwealth countries will have to be discouraged and defeated. As trade offers little attraction for new commercial investment capital and the real estate market appears over-supplied with funds from local and overseas Chinese, the obvious field for the employment of money and labour is industry. The further prosperity of industry will be necessary for the absorption of part of the locally accruing and China-imported labour, and for the general maintenance of the high standard of living—high for East Asian countries.

It is in the self-interest of manufacturers to stamp out malpractices in industry; false trade marks, misleading and deceptive descriptions, failure to deliver on time or in proper quantities, failure to live up to promises made in letters and contracts, outrageous copying of others' designs, of infringement on foreign companies' sales techniques, of patterned processes, of publicity stunts, and shipment in obvious contravention of specification previously agreed upon, are all-too-frequent causes for complaint by both foreign buyers and local exporters of products of many HK factories. Much harm has been done in the past. It will take a long time to undo it. Therefore scrupulous honesty in dealing with foreign buyers is necessary.

The variety of light industrial goods is on the increase. This is one of the highlights of the current Hongkong Products Exhibition. Otherwise the display is more or less identical to what was shown in previous years. There are some additional stalls and booths. Whether the display is generally artistical or aesthetic is a moot point. To the sales appeal of the goods displayed it would probably make very little difference if more artistic talent (if at all available here) had been employed in erecting the exhibition booths. The vast majority of visitors consists of the local population who regard the Exhibition almost like a fun fair, roaming around and buying local goods, from pots and pans to noodles and crackers. For merchants the crowds are always proving most discouraging. But there are certain hours set aside for bona fide commercial visitors so that they may acquaint themselves with local products as displayed, make enquiries and commence negotiations for purchases. More time should be allowed for traders and others seriously interested in business but it seems to be the policy of the management of the Exhibition to permit the stall holders to sell over the counter whatever the milling crowd might fancy. This is not a serious and properly business-minded policy.

The organisers are the Hongkong Chinese Manufacturers' Union. The majority of local factories are members of this union but many large and important industries are not. There should of course be a Hongkong Industrial Federation comprising all factories and workshops, as registered by HK Govt., and perhaps also including larger non-registered factories. It would seem to be superfluous to include the name 'Chinese' into such a federation or union. There are also manufacturers who are not Chinese; then there are public companies whose shareholders come from many countries. The Exhibition was in previous years announced as "Hongkong Chinese Products Exhibition" but the word Chinese has recently been left out, and Hongkong

alone does it. It might come to pass that an All-Hongkong Industrial Federation will be established with all manufacturers joining hands, in their own interest, whether local Cantonese or recently arrived Shanghaiese or European, Indian etc. A change from the Chinese Manufacturers' Union to a general Hongkong Federation appears long overdue.

GERMAN MACHINE INDUSTRY DISPLAY

Attached to the local Products Exhibition is an international machinery display. This is a modest effort compressed into a very small space. Some European and Japanese machines are exhibited. The German Government, for the first time, has taken part in this Exhibition and has opened an information centre in the grounds of the Fair where merchants and manufacturers can obtain, from German technical and industrial experts, advice and suggestions concerning installation and purchase of German-made industrial plant.

The German pavilion was opened last week in the presence of the German Consul General, Dr. H. Dittmann, Counsellor in the Ministry of Economic Affairs, in charge of international exhibitions, Dr. Schulz-Fincke, two locally stationed consuls, Messrs. U. Rothe and W. Handke, and others; Mr. P. Pixis was in charge of construction of the pavilion, and Messrs R. von Tresckow and Hoefs were available for technical advice on all aspects of German machinery for export.

In future, the German Government will continue to participate in exhibitions here and elsewhere in the Far East, and will put on display other export goods in addition to machinery. A German official explained concerning the present Machine Industry Display that it was the old tradition of Hongkong as an outstanding centre of commerce in the Far East and her industrial development in recent

years which accounted for the high importance attributed by the German machine building industry to the international machinery exhibition and industrial fair at Hongkong. The German machine building industry, being with 3800 factories and 800,000 employed the largest of all industrial branches of Germany, has been exporting in 1955 one third of its total 3.4 billion US\$ production to 70 countries all over the world. This effort to regain her prewar position as one of the three leading machinery exporting countries of the world was due to the fact that the German machine builders are able to fulfil their customers' demands for highest quality in all fields of machinery production, putting emphasis on the production of constantly improved special machines. Great attention is being devoted to economic and technical particulars and to individual requirements of the buying industries as well as the rendering of technical advice. Today Germany leads in the world export of machine tools, printing and paper machinery, woodworking machinery, machinery for the food and beverage industries, machinery for the shoe and leather industries, packing machinery, manufacture of apparatus. She ranks second in other branches of world machinery export in such fields as sewing machinery, air conditioning and drying plants, office machinery and contractors' equipment. Although 66% of German machinery exports were sent to Western Europe, the rate of exports to Asian countries is steadily growing. German machinery exports to Asia rose from only 4.9% in 1950 to almost 11% in 1955. Of those exports the deliveries to Hongkong constitute an important part. In export-minded Hongkong the building up of light industries is a major task. The success of these industries will be ensured only if they give attention to the requirements of plant modernisation so as to be able to compete with the light industries of other exporting countries. German machine industry can meet all demands arising from any of these projects.

HONGKONG EXCHANGE AND GOLD MARKETS

Last week witnessed a recovery of sterling which was long expected and gave all of us a boost in morale. The public wishes to see still lower US\$ rates which means lower prices for imports from the dollar area. It is hoped that sterling in New York, now at over 2.52, will further improve. There are political implications in the free market sterling/dollar cross rate which the US Govt certainly does not overlook. Just as much as tension between London and Washington must be prevented so should, equally the free cross rate be prevented from dropping more than just a fraction below 2.80. The financial position of sterling is strong enough to warrant confidence in its stability but a crisis like the recent Suez trouble injected nervousness into the minds of many investors, and speculators took advantage of this situation.

Far Eastern suppliers of US\$ funds have poured out into the local market and still threaten to continue selling as it is expected that holding on to US\$ funds will only bring lower rates in the Hongkong market. Speculators have lost courage and are now offering what the market can absorb. Last week a total of US\$61 million was sold while futures (including a good deal of genuine forward demand by merchants and bankers) came to US\$

5.2 m. The average daily position (which is fictitious only) was US\$5 m. The highest and lowest cross rates for November were 2.46—2.56, and the average gold cross rate stood at 37.90.

* * *

The local money market was somewhat tighter as banks refused to entertain many loan enquiries, preferring to disengage themselves from mortgage seekers. The view is generally held that building of a reckless and speculative type should not be encouraged by easy bank credit. But mass construction of residential premises is continuing at a speed which leaves many a market observer gasping. Merchants found it also rather difficult to obtain adequate loans for import financing as so many small firms are determined to buy goods abroad even if the expected profit margin is negligible, and as long as a bank or a financier carries the risk. With the expectation of higher prices for goods coming from the West and now being shipped via the Cape there was a rush by some importers to cash in on this imagined opportunity; but finance for their bright ideas was anything but simple.

Private credit for real estate business showed growing stringency. The syndicate-type of financing construction and piecemeal sales of portions of new buildings—mostly to speculators, sub-syndicates, landlord-combines—remains to be the fashion and thus it is that so many towering edifices (not

always well constructed in the haste to which financiers are committed) keep on growing into the sky.

Banks charged for L/C from 6 to 7% p.a., overdrafts usually 8% (unless requested by the old and vested clients who pay only at 6%), but many commercial banks demanded for overdrafts up to 12%. Merchants were willing to pay this rate. The approaching year end caused private financiers and native banks to tighten loans and to charge 12 to 15% when security was offered, and up to 18% on inadequately secured merchant loans. Such high interest may have some effect on retail prices and will also tend to firm up prices for local manufacturers' raw material supplies. Fortunately for the consumer there are many old established, reputable firms here which have all the 'credit they require and at reasonable rate of interest, and this should offset price-raising tendencies. The small trader complains that he is at a grave disadvantage when competing with the 'vested interests', and in credit terms he certainly is; but the general public has no sympathy with the less efficient, and to be a small outfit these days is already proof for lack of competitiveness.

* * *

The political outlook has turned to bright again. No flurry in the city cafes, no crisis-grave faces. The recent amiable performance of Chow En-lai has contributed to this easier feeling. Peking has changed its tune

completely now to 'peaceful liberation of Taiwan' and all the martial overtones of the big generals of Peking are no more. The bustling, over-active community here, inspired by the peaceful intentions allround, is dashing ahead with industrial production, building construction and imports/exports. The current local products exhibition wants to show what local factories can turn out and the exhibitors have done an impressive job. More impressive is what local construction companies are doing: they have disfigured almost all districts with demolitions, scaffolding and new structures rising from the Colony's granite—a picture of Faustian fulfilment.

Many an overseas visitor, escaping from the tedious conducted tours of the Tai Hang pagoda, cacophonous Chinese opera, deserted beaches and chilly paddy field vistas, has looked at the building growth of Hongkong and has come away with a feeling of wonder and admiration for the colossal work achieved by local building enterprise. More than anything else in the present stage of Hongkong's development, the transformation of the skyline of the Colony is a most reassuring sign for the abiding confidence of the local people in the future of this unique territory.

An early definition of the position of Hongkong within the Commonwealth would nevertheless be most welcome as it is being gradually realised that we cannot be always known and referred to as a 'Colony'. We are spoken of as an international industrial centre, as the principal entrepot in the Far East, as a free exchange and gold market leading all others in Asia, as a vigorous, progressive community, as the centre for overseas Chinese transactions, as a West/East bridge and cultural meeting and fusion point; surely the political terminology of postwar Britain will find a new, more pleasant word to describe this territory, also providing for local citizenship. At your earliest convenience.

November 26th to December 1st, 1956

U.S.\$

Date	T.T. High	T.T. Low	Notes High	Notes Low
Nov. 26	\$645	643½	643	641½
27	642½	640½	641½	638½
28	640½	639½	639	637
29	640	636½	639	636
30	636½	634½	636½	633½
Dec. 1	633½	629½	633½	628½

D.D. rates: High 642 Low 627½.

Highest and lowest rates in November, 1956 were: T.T. at 650 and 624, and Notes at 647½ and 622.

Trading totals for the week: T.T. US\$4,420,000; Notes cash US\$420,000, forward US\$5,150,000; D.D. US\$635,000. The market was weak all the week through, and business was heavy with sellers dominating the market.

Marked recovery of Sterling and hopeful world news were the causes. The turn was sharp, and rallies are expected by speculators in the future. In the T.T. sector, all round sellers were noted but gold importers supported their requirements. In the Notes market, bulls liquidated and turned bears, and speculators were very active. Interest favoured sellers and aggregated \$14.32 per US\$1,000. Positions taken by speculators averaged US\$5 million per day. In the D.D. sector, the market was active also.

Far Eastern Exchange: Highest and lowest rates per foreign currency unit in HK\$: Philippines 1.765—1.76, Japan 0.0155—0.0152, Malaya 1.875, Vietnam 0.0606—0.0602, Thailand 0.2832—0.282. Sales: Pesos 490,000, Yen 165 million, Malayan \$470,000, Piastre 17 million, and Baht 8 million.

Agreed Merchant T.T. rates: Selling and buying per foreign currency unit in HK\$: England 16.202—16.10, Australia 13.016—12.757, New Zealand 16.202—15.867, United States 5.839—5.755, Canada 6.0836—5.9925, India 1.216—1.205, Pakistan 1.218—1.204, Ceylon 1.219—1.207, Burma 1.216—1.205, Malaya 1.889—1.871. Selling per foreign currency unit in HK\$: South Africa 16.236, Switzerland 1.3322, Belgium 0.11696, West Germany 1.3913.

Chinese Exchange: People's Bank Yuan remained officially at 6.839 per Pound, 0.427 per HK\$, 0.805 per Malayan \$, 0.514 per Indian Rupee, 0.585 per Swiss Franc, and 2.345 per US\$. Spot notes quoted here at 1.50 per Yuan. Taiwan Bank Dollar officially unchanged at 15.65—15.55 per US\$ and 2.74—2.72 per HK\$. Spot notes quoted at \$164—162 per thousand, and remittances at 162—157.

Bank Notes: Highest and lowest rates per foreign currency unit in HK\$: England 16.32—16.22, Australia 12.75, New Zealand 15.10—15.06, Egypt 11.00, East Africa 15.40, South Africa 16.40, India 1.179, Pakistan 0.89, Ceylon 0.95, Burma 0.45, Malaya 1.845—1.842, Canada 6.625—6.515, Cuba 4.80, Philippines 1.80—1.79, Switzerland 1.39, West Germany 1.39, Italy 0.0095, Belgium 0.11, Sweden 1.00, Norway 0.70, Denmark 0.77, Netherlands 1.43, France 0.01535—0.01515, Vietnam 0.0555—0.054, Laos 0.06—0.059, Cambodia 0.086—0.085, North Borneo 1.50, Indonesia 0.189—0.187, Thailand 0.28—0.276, Macau 1.00—0.995, Japan 0.01525—0.0152.

Gold Market

Date	High .945	Low .945	Macau .99
Nov. 26	\$280¼	278½	288¼ High
27	278¼	276¾	
28	277¼	276¼	
29	276	275½	
30	276¼	274¾	
Dec. 1	274¾	272	Low 282¼

The opening and closing prices were 280¼ and 272½, with a continuous drop

of eight points, and the highest and lowest 280¼ and 272. Highest and lowest in November were 287 and 274½. The market was very weak in line with US\$ rates. Interest favoured sellers and aggregated \$5.10 per 10 taels of .945 fine. Tradings averaged 11,500 taels per day and amounted to 69,000 taels for the week, in which 19,550 taels were cash dealings (3,450 taels listed and 16,100 taels arranged). Imports totalled 13,500 taels, which were all from Macau. One shipment of 28,800 fine ounces reached there during the week. Exports amounted to 11,000 taels (7,500 to Singapore, 2,500 to Indonesia, and 1,000 to Vietnam). Differences paid for local and Macau .99 fine were \$14.00—13.50 and \$2.50—12.00 respectively per tael of .945 fine. Cross rates quoted in the Exchange based on the day-to-day T.T. New York rate were: US\$37.92—37.89. 32,000 fine ounces were booked at US\$37.90 ctf Macau. US double eagle old and new coins quoted at HK\$285—278 and 238—232 respectively per coin and Mexican gold coins at HK\$295—288 per coin.

Silver Market: 500 taels of bar silver were traded at \$6.15—6.05 per tael; 700 dollar coins at \$3.95—3.90 per coin; and 1,000 twenty cent coins at \$3.05—3.02 per five coins.

HONGKONG STOCK AND SHARE MARKET

Although the Suez crisis remains with us and for some time no settlement can be expected, the previous feeling of apprehension has given slowly way to more confidence, and a firmer trend with advancing quotations was the result. The supreme question always is: how secure is this Colony from aggression? At a time when Peking made hostile statements and went so far as to threaten 'incalculable consequences' (thus borrowing, as usual, from the Kremlin phraseology), many people here did feel uneasy. Meanwhile the temper displayed by Peking has much changed and the newly adopted Egyptian brothers no longer figure so prominently in the news or rather the propaganda. Every day brings more evidence for 'contradictions' in the camp of the peace-adoring communists and fellow-travellers, and that cannot but instil new hope into the frightened hearts of the slaves and running dogs of capitalism. Detente follows tension like day follows night; and after a selling wave and price decline the situation returns to normal.

Investment buying has already commenced and jittery selling ceased. The complexion of the market is fairly rosy. There may occur some setbacks if and when Moscow, and its gradually less faithful echo from Peking, will thunder again over some fresh trouble in the Levant—Syria for instance. The whole

area there is in an awful mess and that is most regrettable from a peaceful Hongkongite's point of view. It upsets us. Others complain of similar symptoms. That's the price of progress.

The technical position here was sound. More capital entered the securities market and speculation in bullion and free market exchange declined. Turnover last week was \$3.66 million against 3.22 of the week before, and the trend grew firmer as the week ended and the TT New York receded. A favourable trend should continue, prices going up, and yields returning to the usual levels. The behaviour of the TT New York should indicate how the local share market will move—lower TT means, generally, higher share quotations.

The antics of the bullion market can be ignored; the local price is determined by overseas transit market quotation and the higher or lower illicit transport charges (from Macao to HK, and from here to FE buyers). Hedging in gold is practically never resorted to in HK, past experiences having taught bigtime operators and their clients a good and costly lesson.

If the local share market could be cautiously changed so as to attract the less daring type of speculator, gold trading (other than actual import/export) could be reduced to insignificant figures. Forward trading with fortnightly settlement should be attempted in the near future. Are there any sound reasons against such modest semi-speculation? If that matter is taken up, once again, by the Stock Exchange committee in cooperation with the leading commercial banks, an optimistic view as to reinstatement of a futures market may be held. At the same time one may also review the invidious matter of the 1% brokerage which is anyway not generally observed and should be brought back where it belongs—to ½%. Business would be much stimulated, more capital would be attracted to the market, and new interest would be awakened in floating shares of new companies, increasing thus the scope of the local exchange.

In a time when real estate development is so active and so persistent, more land companies could be organised as public companies. The public would support issues of new real estate companies; several of the leading land owning private firms might either incorporate themselves or combine with others and then apply for the listing of their shares at the Exchange. Instead of tenants buying flats or whole storeys (not for own use) in new apartment blocks, these people could be induced to invest their savings in shares in a land company. That also goes for the office blocks of which so many have been built recently and are going to be built in the near future.

The share market is relatively narrow; people with imagination, younger people, should take an interest in the

development of the securities' business. With so many millions flying around and ever more new capital arriving here in search of investment, and with the steady accumulation of earnings from investments, new avenues for the profitable employment of such money could be found. The element of speculation cannot be obviated but it can be reduced to reasonable proportions. If we claim that Hongkong is a financial centre then we must inject life and more interest in the securities market. Such enterprising firms as were operating, and coining money, in old Shanghai (e.g. Swan Culbertson & Fritz; S. E. Levy) should be doing business here. Instead it's all very grey and antiquated. What a pity.

* * *

Last week's HK Bank price gained at first \$5 but then lost it as London register is too low to justify here a higher price. Unions improved \$10 on the previous week and are in good demand. Wheellocks went up 10c only; an insignificant advance considering the yield now being 11%. These shares are usually made the subject of much controversial comment. The recent decision by the directors to pay a cash bonus in respect of the year ended 31 March 1956, was considered by many holders as inadequate; they wanted more money. Wheellocks have been doing extremely well in the past and the present world situation is all in favour of more money rolling in especially to those who are in the shipping business. Other popular shares which retained steady demand and registered gains included Hotels (10,000 shares transacted), Trams (5,200 shares), Lights (8,300 shares), Electrics (17,300 shares), Telephones (11,000 shares), and Lands (7,500 shares). Yaumatis were up by \$3 but Star Ferries were quiet. Rubber shares advanced on increased raw rubber quotations.

Monday: The market opened on a quiet note. Prices were well maintained with a few counters registering slight gains. The turnover amounted to \$640,000. **Tuesday:** The market ruled steady with prices slightly firmer. Business amounted to \$760,000. **Wednesday:** Quiet conditions prevailed. Business amounted to \$400,000. **Thursday:** The market registered slight improvement. Business amounted to \$1,260,000. **Friday:** Prices showed improvements. The volume of business was only about \$740,000.

CLOSING RATES ON NOVEMBER 30, 1956

H.K. Govt. Loans

3½% Loan (1934 & 1940), 89 b.
3½% Loan (1948), 89 b.

Banks

H.K. & S. Bank, 1560 nom.
H.K. & S. Bank (Lon. Reg.), £89 nom.
Bank of East Asia, 244 nom.

Insurances

Union Ins., 967½ sa.
Lombard Ins., 43 nom.
China Underwriters, 8.80 nom.

Investment Companies

Allied Investors, 5.05 s.
Yangtze Finance, 5.70 nom.
H.K. & F.E. Invest., 10 s.

Shipping

Douglases, 592½ nom.
Indo Chinas (Pref.), 14 nom.
Indo Chinas (Def.), 37 nom.
U. Waterboats (Old), 23½ nom.
U. Waterboats (New), 22.80 nom.
Asia Nav., 1.15 nom.
Wheellocks (Old), 6.60 b; 6.80 s.
Wheellocks (New), 6.15 b.

Docks, Wharves & Godowns

H.K. & K. Wharves, 89 b; 92 s.
Sh. Hongkew Wharves, 1 b.
H.K. Docks, 43½ b; 44½ s.
China Providents, 13.20 b.
Shai Dockyards, 1.075 b.

Mining

Raub Mines, 3½ nom.
H.K. Mines, 4c b; 4½c sa.

Shares	Nov. 23	Last Week's Rates			Ups and Downs
		Highest	Lowest	Closing	
HK Bank	1560	1565	1555	1560	steady
Union Ins	957.50 b	970 s	976.50	976.50	+810
Wheelock	6.50	6.60	6.45	6.60	+10¢
HK Wharf	88.50 b	91	88.50 b	89 b	+50¢
HK Dock	44 s	44.50 s	43.50 b	44.50 s	+50¢
Provident	13	13.40 s	13	13.20 b	+20¢
Land	61	61.50	61	61	firm
Realty	1.35 s	1.325	1.30	1.30	steady
Hotel	14.70 s	14.80	14.60	14.80	+10¢
Tram	22.50 n	22.80	22.40	22.80	+30¢
Star Ferry	141 n	141 n	141 n	141 n	quiet
Yaumati	100	103	100	103	+33
Light	23.50	XD 23.10	23.40	XD 23.10	+60¢
Electric	30.50	31.25	30.25	31.25	+75¢
Telephone (o)	23.70	23.90	23.70	23.90	+20¢
Telephone (n)	22.80	22.80	22.70	22.80 b	steady
Cement	36.75 b	37.50	37	37 b	+25¢
Dairy Farm	14.30	14.50 s	14.20	14.50 s	+20¢
Watson	13 b	13.40 s	13 b	13	steady
Yangtze	5.80 n	5.80 s	5.70	5.70	steady
Allied Invest	4.95 n	5.05 s	4.90	4.90	steady
HK & FE Invest	10 n	10 n	10 n	10 s	steady
Amal Rubber	1.45	1.55	1.475	1.55	+10¢
Textile	4.05 n	4	4 b	4 b	steady
Nanyang	7.50 s	7.50 s	7.30 s	7.30 s	—20¢

HONGKONG AND FAR EASTERN TRADE REPORTS

Demand from Japan, China, Korea and SE Asia turned selective last week and the volume of business in the local commodity market was restricted by high prices. Dealers were reluctant to mark down quotations because replenishment costs had increased. On account of the heavy arrival of metals and other imports from UK, Europe, US and Japan during the past three weeks, some firms experienced difficulty in getting enough cash to take delivery of these shipments. There were a few cases of liquidation in round bars and steel plates; speculators who had booked these indents at much lower price levels cashed in on a profit which was already quite handsome. On the whole however prices remained at high levels and importers preferred

borrowing money from native banks at high interest to liquidating spot goods; they were confident that the market would further improve.

China Trade: Taking advantage of the lull in Japan's purchase of steel products from the local market, China absorbed some steel bars, plates and iron pipes. Canton also made selective purchases in pharmaceuticals. 25 automobiles out of the 50 ordered recently by Peking were delivered at the Chinese border in Sham Chun. The cars were Austins equipped with radios and heaters. This is the 3rd shipment of automobiles from here to China this year. In July, 30 Vanguards and 11 Mercedes Benz were delivered and late in September, 30 Hillmans and Humbers went across the border. The orders for Austins were placed by China Resources in London with Austin Motor Export Corporation which authorized its HK agents (Metro Cars) to conduct the negotiations here. Two more cars were shipped to Tientsin by sea last week together with large quantities of dyestuff and wool top. Imports from China remained substantial and consisted chiefly of foodstuff, drawn lace work, tea, joss sticks, herb medicines, live hogs, poultry, silk and cotton piece goods and sundry provisions. Small consignments of paper, beans and oilseeds reached here after prices had advanced.

Japan Trade: Japan Textile Machinery Association revealed that exports of spindles and looms to China during the first 10 months this year reached US\$5.35 million representing a three-fold increase over the total for the past three years. The Japanese sample fair in China is now being removed from Peking to Shanghai and more embargoed goods (225 h.p. marine diesel engines, large trucks and buses, etc.) are on way from Japan to Shanghai. Items on exhibition, including the embargoed machinery, would probably be sold to China instead of shipped back to Japan. A Japanese automobile industry mission is planning to visit China to discuss with Peking the possibilities of constructing and servicing plants in China with Japanese technical help. Meanwhile, Japanese shipowners are routing more ships to China in view of (1) the sharp increase in the export of fertilizers, cement, textiles and agricultural chemicals to China (fertilizer shipments will total 600,000 tons a year) and in the import of Chinese salt, coal, soyabean, magnesium clinkers; and (2) the scheduled opening of Tsingtao and Whampoa to Japanese shipping in addition to Dairen, Chinwangtao, Taku, Shanghai and Chefoo. It is now estimated that an annual average of about 2.5 million tons will be shipped between the two countries and by the end of this year, the monthly total of 35

vessels will be increased to 50. Cargo movements between HK and Japan remained very active last week. Among over 5,000 tons of imports were 2,500 tons cement and 2,000 tons coal. Exports to Japan included 2,100 tons iron ore, 600 tons steels and 1,000 tons scrap iron.

UK and Europe: Imports from UK and Europe consisted chiefly of metals, paper and dyestuff. Inward shipments were fewer than previous weeks on account of the routing of vessels around the Cape. Exports of HK products and China produce to these markets remained very active and totalled 4,700 tons to UK and 2,000 tons to Europe. Dealers here booked more paper and other supplies from these two sources while factories here continued to receive orders from UK for cloth, gloves and rubber footwear and from Europe for enamelware, textiles, knitwear, torch batteries, feather and shirts. Several importers in Lyon and Paris are now seeking direct contacts with local manufacturers for textile products and other items. Exporters in France also wish to develop more trade with HK and are offering electrodes, equipment for manufacturing tiles in cement or imitation marble, press used for glass industry, corrugated sheets, cotton and nylon laces, perfumes, wines and provisions. West Germany is also anxious to sell machinery and other exports to HK.

Trade with US: American goods in the local market, particularly provisions and fruits, were marked up recently on account of the advance in US dollar rates. Actually, the stock on the shelves of local grocers had been imported long before the recent hike in US dollars. Imports from the US last week totalled 2,000 tons consisting chiefly of black plate, textiles, cotton, electric appliances, glassware, paper, photo supplies, sewing machine, tobacco, toys, Xmas goods, sundries and provisions. Exports to the US included 1,000 cases of water chestnuts and several consignments of torch and rattan ware. Several orders were received from the US for woollen gloves averaging 20,000 doz pairs per order.

Trade with Indonesia: Djakarta imposed restrictions on more imports and banned imports of matches on the ground that domestic consumption can now be supplied by factories in Indonesia. On the other hand, Djakarta is encouraging imports of daily necessities, industrial raw materials and construction supplies and equipment. However import procedures and regulations in Indonesia are so complicated that an importer, after he has learned all about the ever-changing regulations, must go to 14 Government offices before he gets an import licence. The Technical Goods Importers Association in Djakarta therefore urged authorities there to modify the present system. Orders

Lands, Hotels & Bldg.

H. & S. Hotels, 14.60 b; 14.80 s; 14.70 sa.
H.K. Lands, 60½ b; 61 s; 61 sa.
Shai Lands, 56½ c b.
Humphreys, 18.80 nom.
H.K. Realities, 1¼ b; 1.35 s; 1.30 sa.
Chinese Estates, 400 nom.

Public Utilities

H.K. Tramways, 22.80 b; 22.90 s; 22.60 sa.
Peak Trams (F. Paid), 77 nom.
Peak Trams (P. Paid), 38½ nom.
Star Ferries, 141 nom.
Yaumati Ferries, 102 b; 102/103 sa.
China Lights, Ex. Div., 23.10 b.
H.K. Electrics, 31¼ b; 31¼ s; 31¼ sa.
Macao Electrics, 9.10 b.
Sandakan Lights, 8½ nom.
Telephones (Old), 23.80 b; 24 s; 23.90 sa.
Telephones (New), 22.80 b.
Shanghai Gas, 90c b.

Industrials

Cements, 37 b; 37½ s.
H.K. Ropes, 12.80 b.
Metal Industries, 1.65 b; 1.725 s.

Stores

Dairy Farms, 14.30 b; 14½ s.
Watsons, 12.80 b; 13.10 s; 13 sa.
L. Crawfords, 29.40 nom.
Cald. Macg. (Ord.), 28.80 nom.
Sinceres, 1½ b; 1.85 s.
China Emporium, 8¾ b.
Sun Co., Ltd., 85c nom.
Kwong Sang Hong, 200 s.
Wing On (H.K.), 61 b.

Miscellaneous

China Entertainments, 17½ nom.
International Films, 20c nom.
H.K. Constructions, 5½ nom.
Vibro Piling, 18½ nom.
Marsman Investments, 6/- nom.
Marsman (HK), 65c nom.

Cottons

Ewos, 85c nom.
Textile Corp., 4 b.
Nanyang Mill, 7.30 s.

Rubber Companies

Amal Rubber, 1.55 b; 1.575 s; 1.55 sa.
Ayer Tawah, 1.40 b.
Java-Consolidated Estates, 50c sa.
Langkat, 1.175 b.
Rubber Trust, 1.80 b; 1.825 sa.
Shanghai Kelantan, 92c b.
Shanghai Sumatra, 2¼ b.
Sungala, 85c b.

from Djakarta last week were mostly for HK manufactures. Demand for HK yarn and cloth was handicapped by high prices here; interest shifted to Japanese cloth but on account of the recent heavy purchases of these two items from here only small quantities of Japanese cloth were booked last week. From the local market Djakarta also procured Japanese rayon yarn and selective items of metals and paper. About 800 tons of cloth, yarn, paper, metalware, fishing nets, screws and sundries left here for Indonesia during the week. Imports from Indonesian ports included rice bran, rattan, feathers and beans.

Thailand Trade: In order to protect and develop her domestic industries, Bangkok was considering to introduce import restrictions on more goods and to encourage imports of industrial raw materials and equipment. Meanwhile substantial quantities of Chinese light industrial products and foodstuffs were bought via HK and to the local market, Bangkok shipped about 3,500 tons rice, 300 head live cattle and small quantities of feather, groundnut oil and kernel, beans, starch and timber.

Trade with Korea: Korean Consulate General here advised local exporters and factories who are trading with Korea to register with the Consulate; no commercial certificate will be issued to unregistered firms in the future. Enquiries reached here from Seoul covered fertilizers and paper for shipments next year. Meanwhile, selective purchases were made here in metals, paper, pharmaceuticals, chemicals and other commodities; however, the volume of these transactions was small. To the local market, Seoul shipped some sea food, herb medicines and ginseng and granted exports of coal to Japan.

Taiwan Trade: Taipei announced that cotton mills there have a total number of 210,000 spindles and 14,600 power looms producing 146,000 bales of cotton yarn of 8 to 10 counts and 176 million yards of cloth annually. Woollen mills there have 13,494 spindles and 220 power looms turning out 1,264,000 yards woollen piece goods and 1,124,000 pounds woollen yarn. Small quantities of Taiwan yarn reached the local market early this year but recently such imports were discouraged by keen competition from Pakistan products. Imports last week from Taiwan included small consignments of tea, feather, peppermint oil, citronella oil, menthol crystal and camphor tablets. Quotations for citronella oil in Taipei rose to an all-time record of T\$52 per Taiwan catty. In order to develop the tourist trade, Taipei was planning to relax entry and exit restrictions and to set up an official tourist commission. Private interests there were planning to build new hotels in various locations on the island including a US\$1 million hotel

in Taipei. Tourists will also be granted preferential foreign exchange rate.

Malaya & Singapore: Over 3,900 tons of cargoes left here for Malayan ports last week; principal items included Chinese foodstuff and sundry provisions and HK manufactured cement, sugar, wheat flour, paint, textiles, and metalware. Imports of coconut oil, charcoal, firewood, groundnut kernel, beans and feathers from Malaya totalled 700 tons. Demand from Malaya for sundry provisions and foodstuff remained strong.

The Philippines: Manila enquired for HK manufactured steel round bars but transactions were handicapped by high prices here. Imports of groundnut kernel and sugar from the Philippines were insignificant.

Cambodia, Laos and Vietnam: Due to restrictions imposed by Saigon on Chinese importers there, dealers here shipped less goods to South Vietnam recently. Haiphong sent here more staples including feathers and beans and made selective purchases in chemicals and pharmaceuticals from the local market. Barter trade between HK and Cambodia remained active: imports totalled 500 tons consisting chiefly of beans, maize, timber, rice bran, sesame, lotus seed and scrap iron; exports included 700 tons of metals, textiles and construction materials. Demand from Laos for cloth, pharmaceuticals, industrial chemicals, metals, paper etc. remained strong; however, most purchases were made via Bangkok and it is difficult to estimate what percentage of exports to Thailand was for transshipments to Laos.

India & Pakistan: Imports from India included 1,000 bales of cotton and 110 bales of yarn. Imports of yarn from Pakistan remained heavy in spite of the recent advance in prices. From the local market, India and Pakistan procured cassia lignea and HK manufactured torch and other items.

Trade with Burma: 1,100 tons of wheat flour, yarn, paint and metals left here for Rangoon last week. There are indications that Rangoon might curtail imports from Communist countries and turn to HK and other sources for supply because her barter trade with China and USSR had not been very profitable.

Trade with Ceylon: Discharging facilities in Colombo failed to improve and ships leaving here for that port accepted only small consignments; as a result, over 5,000 tons of cargoes consisting chiefly of garlic, dried chilli, textiles, enamelware, green peas, were awaiting shipments to Ceylon towards week-end.

African Markets: West Africa ordered enamelware blanks from here in

addition to finished enamelware. Exports to this market also included textiles and rubber shoes; shipments still went via HK and Europe. Consignments to East and South African markets were shipped direct from here; principal items were torch, enamelware, textiles, shirts and hurricane lantern. Imports from these two sources included oats, fruit, brandy, raw cotton, groundnut kernel, tobacco, ivory and cow hide.

Imports from North Borneo included 1,000 tons of timber and substantial quantity of firewood. From here, North Borneo purchased sugar, cement, structural steels and foodstuff.

Imports from Australia totalled 1,000 tons consisting chiefly of wheat flour, frozen meat, wool and dairy products.

China Produce: China sent here more beans and oilseeds including gallnuts after prices had marked up. Demand from Japan for beans and oilseeds remained strong but buying offers were low and many transactions were still under negotiation by week-end. Low stocks and orders from Pakistan and India encouraged speculative buying in cassia lignea and broken cassia; speculators were also expecting orders from US. Groundnut kernel continued to rise on marked-up Philippine, African and Chinese indents, low stock, and strong local demand. Groundnut oil was firm on higher cost and low stock but towards week-end expected arrivals from China and Africa checked further advances. The market registered also demand from West Germany for egg yolk powder, hog casing, feather and bamboo cane; from Australia for woodoil, camphor tablets and seagrass cord and mats; from UK and France for gallnuts; from Thailand for rosin, gypsum and garlic; from Singapore and Malaya for gypsum, dried chilli and garlic; from Burma for menthol crystal. Ceylon sent representatives to Canton to buy dried chilli and green peas; shipments will be sent direct from Canton to Colombo. Canton will also ship tea, bristles and canned food direct to UK under orders concluded by UK businessmen who went there recently. Prices for most items were firm throughout the week.

Metals: Korea and China absorbed almost all available iron pipe while Singapore and local factories bought heavily in galvanized iron sheet; dealers booked more supplies from Europe and Japan to replenish the dwindled stocks. Thousands of tons of metals continued to reach here consisting chiefly of round bars and steel plate from Europe and black plate from the US. Round bars were no longer enquired for by Japan but demand from China, Indonesia, Philippines and local contractors kept prices very firm and towards week-end there

were speculative purchasing in this item. Steel plate remained firm in spite of the absence of demand from Japan; China's interest in this item had always been keen and whenever prices eased slightly or liquidation occurred, China was always ready with cash. Japan's interest was centred on iron scraps but buying offers were low on account of her recent heavy procurements from the US and SE Asia; prices here remained about \$440 per ton for special quality, 1st choice. Exports of other items were limited to small quantities of files to Haiphong; black plate to Korea; tinplate and G.I. corrugated sheet to Indonesia; iron wire nail and G.I. wire to Thailand. Local demand for black plate, tinplate and waste waste was very strong and prices advanced on account of increased indents.

Paper: China resumed shipments of newsprint in reams, woodfree printing, poster, M.G. cap, kraft, manifold, flint and strawboard to the local market after prices had hiked. Demand from Thailand, Indonesia, and local retailers for these items was keen but many transactions were handicapped by high quotations. Cost of replenishments from Japan also marked up and delivery dates were remote for most items. Dealers therefore turned to Europe for earlier deliveries and more reasonable quotations; many indents were under negotiation towards week-end. Meanwhile, several inward shipments of paper from Europe were delayed on account of the routing of vessels around the Cape; dealers here hoarded spot goods for better offers which were reluctant from buyers. Trading slowed down.

Industrial Chemicals: Prices for most items were firm on increased cost. Shellac alone registered drops on account of recent heavy imports from India while demand from Taiwan declined. In view of the keen enquiries from SE Asia, dealers here booked more lithopone, sodium bicarbonate caustic soda and zinc oxide from China. Orders from Cambodia and Thailand also covered gum arabic, sulphur, sodium bichromate. Demand from Korea included orders for caustic soda, chlorate of potash, oxalic acid and enquiries for shellac. Local factories provided steady demand for gum arabic, sodium

hydrosulphite, sodium bichromate, caustic soda, chlorate of potash, zinc oxide and oxalic acid.

Pharmaceuticals: Spot goods of dihydrostreptomycin, sulfanamides, and aspirin powder were short under strong and unexpected demand from China and SE Asia. Speculative activities in these items accentuated the shortage. Dealers here have been planning their business on regular local demand during the past year and an unexpected export of any item usually causes sudden shortage in the local market. Orders from China were mostly placed with local agents for direct shipments from their European suppliers but demand from SE Asia was for spot goods only.

Cotton Yarn & Piece Goods: HK yarn retained strong demand from Indonesia, Cambodia and local weaving factories but only a few new orders were concluded last week on account of (1) remote delivery dates, (2) advanced prices and (3) the lack of selling offers from local mills. Pakistan yarn was ordered in spite of increased cost and the market was so buoyant that Japanese products also improved on low stock. Thailand was very keen in HK cloth but high quotations limited the volume of business; local weaving mills are now fully booked till March next year with orders from UK, Indonesia and Africa. Trading in spot market turned to Japanese cloth which was favoured by Indonesia, and to Chinese piece goods which retained steady local demand.

Rice: The slight decline in rice quotations was caused by (1) the increased import quota for next year; (2) heavy imports from China and Thailand; and (3) reduced cif quotations from Bangkok. Local consumption remained normal.

Wheat Flour: Steady demand from Thailand, Burma, Indonesia, Cambodia and regular local consumption kept prices firm. Canadian and US brands also stimulated by high exchange rates.

Sugar: The market opened firm on limited supply from Taiwan but later eased when new offers arrived from Taipei; however, at the close on Saturday prices retained a firm trend on advanced indents. Taikoo products

followed the trend of Taiwan sugar and were very firm towards week-end because stocks were below the demand from Singapore, North Borneo and local retailers. Indonesian and Philippine browns were also firm.

Cement: In spite of the heavy imports, Japanese cement improved from \$112 to \$114.50 per ton cif HK; local demand was very strong. Japan's cement exports this year will probably reach 2 million tons by year-end; during the first 10 months this year, Japan exported a total of 1.75 million tons and estimated exports for November and December will total about 180,000 tons. Last year, Japan ranked fourth in the World cement exporters' list after Britain, Belgium and West Germany. The number one buyer for Japanese cement this year is China. In the local market, Chinese cement remained firm at \$115 per ton cif HK; dealers here were unable to get new supply from Canton in large quantities. Green Island products were firm on steady local demand and exports to Singapore and North Borneo.

Sundry Provisions: Thailand and Singapore remained the leading buyer for mushroom, black moss black, fungus, beanstick, dates, water melon seed and olive seed. Prices were generally firm; mushroom however eased slightly under heavy imports from Japan. Red dates also enjoyed demand from Canada.

Window Glass: China increased prices for window glass by an average of 3%; demand from SE Asia and local contractors remained keen because indents from Europe also advanced. Japanese products provided keen competition to Chinese glass but spot goods were short.

Live Hogs: The fight for the monopoly of local pork market between pro-Taipei and pro-Peking retailers here ended temporarily when supply from both sources increased. Prices here are still high because local consumption is far above the 1,500 head of hogs now being slaughtered every day. Dealers here are now importing more pigs from Cambodia and total imports from Taiwan and Cambodia will average 20,000 head per month beginning December. Current retail price for pork in the local market is about \$4.50 per catty.